

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

**For The Year Ended
June 30, 2020**

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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, 2020, 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, 2020, 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, 2020, 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 Balance

As discussed in Note 12 to the financial statement, Owsley County Fiscal Court had an actual deficit fund balance in its jail fund of \$24,964 at June 30, 2020. The fund deficit was due to transfers of restricted funds in fiscal year 2019, 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.

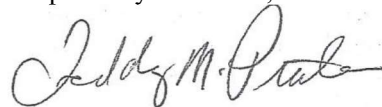
Other Reporting Required by *Government Auditing Standards*

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

- 2020-001 The Fiscal Court Overspent The Jail, LGEA, And Solid Waste Fund Budgets
- 2020-002 The Jail Fund And LGEA Fund Owe The Road Fund A Total of \$41,000
- 2020-003 The Fiscal Court Did Not Have Controls Over Disbursements
- 2020-004 The Fiscal Court Did Not Pay Withholdings Timely

Respectfully submitted,



Teddy Michael Prater CPA, PLLC

September 21, 2020

OWSLEY COUNTY OFFICIALS**For The Year Ended June 30, 2020****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
Jason Hollan	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, 2020

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

For The Year Ended June 30, 2020

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 505,956	\$	\$
In Lieu Tax Payments	30,972	32,299	
Excess Fees	47,020		
Licenses and Permits	400		
Intergovernmental	118,381	927,138	53,195
Charges for Services			
Miscellaneous	230,438	79,050	1,437
Interest	46	114	6
Total Receipts	<u>933,213</u>	<u>1,038,601</u>	<u>54,638</u>
DISBURSEMENTS			
General Government	613,751	5,677	
Protection to Persons and Property	24,189		271,598
General Health and Sanitation			
Social Services			
Recreation and Culture			
Roads		776,205	
Debt Service		34,778	
Administration	311,574	189,862	7,713
Total Disbursements	<u>949,514</u>	<u>1,006,522</u>	<u>279,311</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(16,301)</u>	<u>32,079</u>	<u>(224,673)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds		170,000	
Transfers From Other Funds	281,801	81,972	223,430
Transfers To Other Funds	(266,481)	(281,801)	
Total Other Adjustments to Cash (Uses)	<u>15,320</u>	<u>(29,829)</u>	<u>223,430</u>
Net Change in Fund Balance	(981)	2,250	(1,243)
Fund Balance - Beginning (Restated)	73,968	22,387	3,279
Fund Balance - Ending	<u>\$ 72,987</u>	<u>\$ 24,637</u>	<u>\$ 2,036</u>
Composition of Fund Balance			
Bank Balance	\$ 74,072	\$ 37,139	\$ 9,520
Less: Outstanding Checks	<u>(1,085)</u>	<u>(12,502)</u>	<u>(7,484)</u>
Fund Balance - Ending	<u>\$ 72,987</u>	<u>\$ 24,637</u>	<u>\$ 2,036</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, 2020
(Continued)

Budgeted Funds				
Local Government Economic Assistance Fund	Solid Waste Fund	Parks and Recreation Fund	Local Government Economic Development Fund	Total Funds
\$ 342	\$	\$	\$	\$ 506,298
				63,271
				47,020
				400
160,112	39,415	30,000		1,328,241
	241,989	5,636		247,625
27,378	4,031	13,277		355,611
23	16	3		208
187,855	285,451	48,916		2,548,674
10,005				629,433
59,316				355,103
8,677	206,004			214,681
4,050				4,050
		72,401		72,401
	5,693			781,898
	10,746			45,524
35,880	45,081	1,115		591,225
117,928	267,524	73,516		2,694,315
69,927	17,927	(24,600)		(145,641)
				170,000
	11,000	27,000		625,203
(47,421)	(29,500)			(625,203)
(47,421)	(18,500)	27,000		170,000
22,506	(573)	2,400		24,359
12,960	26,406	1,696	897	141,593
\$ 35,466	\$ 25,833	\$ 4,096	\$ 897	\$ 165,952
\$ 36,326	\$ 25,833	\$ 6,591	\$ 897	\$ 190,378
(860)		(2,495)		(24,426)
\$ 35,466	\$ 25,833	\$ 4,096	\$ 897	\$ 165,952

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, 2020

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, 2020
(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, 2020
(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, 2020
(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, 2020
(Continued)

Note 2. Deposits

The fiscal court maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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 the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of June 30, 2020, 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 2020.

	General Fund	Road Fund	LGEA Fund	Solid Waste Fund	Total Transfers In
General Fund	\$	\$ 281,801	\$	\$	\$ 281,801
Road Fund	57,472		12,000	12,500	81,972
Jail Fund	186,009		35,421	2,000	223,430
Solid Waste Fund	11,000				11,000
Parks and Recreation Fund	12,000			15,000	27,000
Total Transfers Out	<u>\$ 266,481</u>	<u>\$ 281,801</u>	<u>\$ 47,421</u>	<u>\$ 29,500</u>	<u>\$ 625,203</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, 2020, the Owsley County Fiscal Court had receivables in the amount of \$129,432, due from residential customers for garbage collection services.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 5. Short-term Debt

A. Direct Borrowing

On June 24, 2020, the fiscal court entered into a \$50,000 lease agreement with the Kentucky Association of Counties Leasing Trust to cover operating expenses until FEMA reimbursement received. The agreement requires one payment in September 2020. As of June 30, 2020, the principal balance outstanding was \$50,000. The lease was paid in full in September 2020.

Note 6. Long-term Debt

A. Direct Borrowings

1. KACoLT Lease #18

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 which required monthly payments of \$736, ending December 2020, was paid in full in September 2019. As of June 30, 2020, the principal balance outstanding was \$0.

2. KACoLT Lease #19

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 amortization schedule was revised after an additional principal payment was made in November 2019. The revised agreement requires monthly payments of \$3,540, ending October 2022. As of June 30, 2020, the principal balance outstanding was \$88,621. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 39,661	\$ 2,816
2022	41,272	1,204
2023	7,688	42
Totals	<u>\$ 88,621</u>	<u>\$ 4,062</u>

B. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings	<u>\$ 10,746</u>	<u>\$ 120,000</u>	<u>\$ 42,125</u>	<u>\$ 88,621</u>	<u>\$ 39,661</u>
Total Long-term Debt	<u>\$ 10,746</u>	<u>\$ 120,000</u>	<u>\$ 42,125</u>	<u>\$ 88,621</u>	<u>\$ 39,661</u>

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 7. Commitments and Contingencies

The county is involved in a lawsuit. 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 8. 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 2018 was \$189,452, FY 2019 was \$179,725 and FY 2020 was \$226,930.

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 24.06 percent.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 8. Employee Retirement System (Continued)

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:

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

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

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.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 8. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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.

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 9. 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.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 9. Deferred Compensation (Continued)

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, 2nd Floor, Frankfort, KY 40601, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2020, the Owsley County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Subsequent Event

In August 2020, a \$15,600 penalty, related to violations at the county garage, was imposed on the Owsley County Fiscal Court by the Kentucky Labor Cabinet Division of OSH Compliance. The county is to make twenty payments of \$780 over twenty months.

Note 12. Deficit Fund Balance

As of June 30, 2020, the jail fund had a deficit balances of \$24,964. The deficit was due to transfers of restricted road funds in fiscal year 2019, that were not repaid. The financial statement does not include any adjustment for a fiscal year-end deficit.

	<u>Jail Fund</u>
Cash Balance	\$ 2,036
Interfund Payables	<u>(27,000)</u>
Fund Balance	<u>\$ (24,964)</u>

Note 13. Prior Period Adjustments

The beginning balances of the following funds were restated due to prior year voided checks:

Road Fund	\$ 997
Jail Fund	1,924
LGEA Fund	2,640
Solid Waste Fund	50
Total PY Voided Checks	<u>\$ 5,611</u>

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2020

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OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2020

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 448,775	\$ 448,775	\$ 505,956	\$ 57,181
In Lieu Tax Payments	42,000	42,000	30,972	(11,028)
Excess Fees	12,200	12,200	47,020	34,820
Licenses and Permits			400	400
Intergovernmental	119,525	119,525	118,381	(1,144)
Miscellaneous	173,698	173,698	230,438	56,740
Interest	10	10	46	36
Total Receipts	<u>796,208</u>	<u>796,208</u>	<u>933,213</u>	<u>137,005</u>
DISBURSEMENTS				
General Government	578,391	619,611	613,751	5,860
Protection to Persons and Property	18,500	26,500	24,189	2,311
General Health and Sanitation	36,000			
Debt Service	7,500			
Administration	324,330	318,610	311,574	7,036
Total Disbursements	<u>964,721</u>	<u>964,721</u>	<u>949,514</u>	<u>15,207</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(168,513)</u>	<u>(168,513)</u>	<u>(16,301)</u>	<u>152,212</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	223,513	223,513	281,801	58,288
Transfers To Other Funds	(95,000)	(95,000)	(266,481)	(171,481)
Total Other Adjustments to Cash (Uses)	<u>128,513</u>	<u>128,513</u>	<u>15,320</u>	<u>(113,193)</u>
Net Change in Fund Balance	(40,000)	(40,000)	(981)	39,019
Fund Balance - Beginning	<u>40,000</u>	<u>40,000</u>	<u>73,968</u>	<u>33,968</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 72,987</u>	<u>\$ 72,987</u>

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 6,900	\$ 6,900	\$ 32,299	\$ 25,399
Intergovernmental	1,239,645	1,239,645	927,138	(312,507)
Miscellaneous	105,000	105,000	79,050	(25,950)
Interest	12	12	114	102
Total Receipts	<u>1,351,557</u>	<u>1,351,557</u>	<u>1,038,601</u>	<u>(312,956)</u>
DISBURSEMENTS				
General Government	8,400	8,400	5,677	2,723
Roads	832,100	850,965	776,205	74,760
Debt Service	200	34,778	34,778	
Bridges	50,000	35,587		35,587
Administration	252,344	213,314	189,862	23,452
Total Disbursements	<u>1,143,044</u>	<u>1,143,044</u>	<u>1,006,522</u>	<u>136,522</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>208,513</u>	<u>208,513</u>	<u>32,079</u>	<u>(176,434)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			170,000	170,000
Transfers From Other Funds			81,972	81,972
Transfers To Other Funds	<u>(223,513)</u>	<u>(223,513)</u>	<u>(281,801)</u>	<u>(58,288)</u>
Total Other Adjustments to Cash (Uses)	<u>(223,513)</u>	<u>(223,513)</u>	<u>(29,829)</u>	<u>193,684</u>
Net Change in Fund Balance	(15,000)	(15,000)	2,250	17,250
Fund Balance - Beginning (Restated)	<u>15,000</u>	<u>15,000</u>	<u>22,387</u>	<u>7,387</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 24,637</u>	<u>\$ 24,637</u>

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 66,450	\$ 66,450	\$ 53,195	\$ (13,255)
Charges for Services	100	100		(100)
Miscellaneous			1,437	1,437
Interest	5	5	6	1
Total Receipts	66,555	66,555	54,638	(11,917)
DISBURSEMENTS				
Protection to Persons and Property	189,550	200,504	271,598	(71,094)
Administration	20,485	9,531	7,713	1,818
Total Disbursements	210,035	210,035	279,311	(69,276)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(143,480)	(143,480)	(224,673)	(81,193)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	140,980	140,980	223,430	82,450
Total Other Adjustments to Cash (Uses)	140,980	140,980	223,430	82,450
Net Change in Fund Balance	(2,500)	(2,500)	(1,243)	1,257
Fund Balance - Beginning (Restated)	2,500	2,500	3,279	779
Fund Balance - Ending	\$ 0	\$ 0	\$ 2,036	\$ 2,036

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$	\$	\$ 342	\$ 342
Intergovernmental	82,396	82,396	160,112	77,716
Miscellaneous			27,378	27,378
Interest	4	4	23	19
Total Receipts	82,400	82,400	187,855	105,455
DISBURSEMENTS				
General Government	8,679	10,615	10,005	610
Protection to Persons and Property	53,800	62,957	59,316	3,641
General Health and Sanitation	10,680	8,677	8,677	
Social Services	5,400	5,400	4,050	1,350
Administration	21,841	12,751	35,880	(23,129)
Total Disbursements	100,400	100,400	117,928	(17,528)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(18,000)	(18,000)	69,927	87,927
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(47,421)	(47,421)
Total Other Adjustments to Cash (Uses)			(47,421)	(47,421)
Net Change in Fund Balance	(18,000)	(18,000)	22,506	40,506
Fund Balance - Beginning (Restated)	18,000	18,000	12,960	(5,040)
Fund Balance - Ending	\$ 0	\$ 0	\$ 35,466	\$ 35,466

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$	\$ 39,415	\$ 39,415
Charges for Services	285,000	285,000	241,989	(43,011)
Miscellaneous	1,200	1,200	4,031	2,831
Interest	8	8	16	8
Total Receipts	286,208	286,208	285,451	(757)
DISBURSEMENTS				
General Health and Sanitation	162,500	173,956	206,004	(32,048)
Roads	8,000	8,000	5,693	2,307
Debt Service	200	11,171	10,746	425
Administration	70,508	48,081	45,081	3,000
Total Disbursements	241,208	241,208	267,524	(26,316)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	45,000	45,000	17,927	(27,073)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			11,000	11,000
Transfers To Other Funds	(60,000)	(60,000)	(29,500)	30,500
Total Other Adjustments to Cash (Uses)	(60,000)	(60,000)	(18,500)	41,500
Net Change in Fund Balance	(15,000)	(15,000)	(573)	14,427
Fund Balance - Beginning (Restated)	15,000	15,000	26,406	11,406
Fund Balance - Ending	\$ 0	\$ 0	\$ 25,833	\$ 25,833

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

PARKS AND RECREATION FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 60,000	\$ 60,000	\$ 30,000	\$ (30,000)
Charges for Services	6,800	6,800	5,636	(1,164)
Miscellaneous	20,800	20,800	13,277	(7,523)
Interest	2	2	3	1
Total Receipts	87,602	87,602	48,916	(38,686)
DISBURSEMENTS				
Recreation and Culture	80,312	93,199	72,401	20,798
Administration	29,310	16,423	1,115	15,308
Total Disbursements	109,622	109,622	73,516	36,106
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(22,020)	(22,020)	(24,600)	(2,580)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	14,020	14,020	27,000	12,980
Total Other Adjustments to Cash (Uses)	14,020	14,020	27,000	12,980
Net Change in Fund Balance	(8,000)	(8,000)	2,400	10,400
Fund Balance - Beginning	8,000	8,000	1,696	(6,304)
Fund Balance - Ending	\$ 0	\$ 0	\$ 4,096	\$ 4,096

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u>	<u>Final Budget</u>
			<u>(Budgetary</u>	<u>Positive</u>
			<u>Basis)</u>	<u>(Negative)</u>
RECEIPTS				
Intergovernmental	\$ 150,000	\$ 150,000	\$	\$ (150,000)
Total Receipts	150,000	150,000		(150,000)
DISBURSEMENTS				
Administration	150,000	150,000		150,000
Total Disbursements	150,000	150,000		150,000
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, 2020

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
jail	protection to persons and property	\$ 71,094
lgea	administration	\$ 23,129
solid waste	general health and sanitation	\$ 32,048

Total disbursements in the jail, lgea and solid waste funds exceeded budgeted appropriations by \$69,276, \$17,528, and \$26,316, respectively.

OWSLEY COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2020

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OWSLEY COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2020

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 319,407	\$	\$	\$ 319,407
Buildings	2,969,904			2,969,904
Vehicles and Equipment	2,605,610	143,293	163,134	2,585,769
Infrastructure	3,855,941			3,855,941
 Total Capital Assets	 <u>\$ 9,750,862</u>	 <u>\$ 143,293</u>	 <u>\$ 163,134</u>	 <u>\$ 9,731,021</u>

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

June 30, 2020

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, 2020, 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 September 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 a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2020-004 to be a material weakness.

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owsley County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2020-001, 2020-002, and 2020-003.

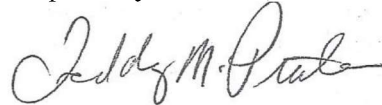
Views of Responsible Official and Planned Corrective Action

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,

A handwritten signature in dark ink, appearing to read "Teddy M. Prater", is written over a light blue circular stamp.

Teddy Michael Prater CPA, PLLC

September 21, 2020

**OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2020

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**OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2020

STATE LAWS AND REGULATIONS:

2020-001 The Fiscal Court Overspent The Jail, LGEA and Solid Waste Fund Budgets

This is a repeat finding and was included in the prior year report as finding 2019-001.

The original budgets for the jail fund, lgea fund, and solid waste fund for fiscal year 2020 were overspent by \$69,276, \$17,528 and \$26,316, respectively.

The fiscal court failed to properly monitor disbursements to keep them within approved budget limits. Management prepared two emergency amendments in June 2020 but did not follow the required procedures for amendments on an emergency basis. The budget amendments are not valid because they were not approved by the Department for Local Government. Therefore, the amendments were not included in the final budgeted amounts on the budgetary comparison schedules for the three funds.

Also, road fund lease proceeds in the amount of \$170,000 were not budgeted, however, the related disbursements did not exceed the original budget.

DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* states that:

- The fiscal court may amend the county budget by the process described in KRS 67.075 through KRS 67.077. All amendments to a county budget must be approved by the State Local Finance Officer as mandated by KRS 68.280.
- It is necessary to amend the budget to reflect the receipt and expenditure of funds received through a state or federal grant if that grant was not part of the original budget document. An amendment of this nature should be made immediately upon receipt of those funds.
- Budget amendments may also be made if the county receives unanticipated revenues or revenues exceeding the budgeted estimates. The budget amendment is necessary only if these extra revenues are going to be expended.
- Amendments for unanticipated lease proceeds must appropriate 100% of the proceeds for the lease project.
- Any amendments to a county budget submitted to the State Local Finance Officer on an emergency basis must strictly adhere to the provisions of KRS 67.078 and a photocopy of the fiscal court order naming and describing the emergency must accompany the budget amendment pursuant to KRS 68.280.

We recommend the fiscal court properly monitor operating funds to ensure actual disbursements do not exceed approved budget appropriations. And that the fiscal court adhere to the provisions outlined in KRS 67.078 and 68.280 regarding emergency budget amendments submitted for approval to the State Local Finance Officer.

Views of Responsible Official and Planned Corrective Action:

Budget amendments will be made when receipts are received. Will follow correct process to make sure everything is completed correctly.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2020
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2020-002 The Jail Fund And LGEA Fund Owe The Road Fund A Total of \$41,000

This is a repeat finding and was included in the prior year report as finding 2019-002.

During fiscal year 2019, 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 lgea fund transferred \$12,000 to the road fund in fiscal year 2020.

As of June 30, 2020, the jail fund and lgea fund owe the road fund, \$27,000 and \$14,000 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:

Transfers will be made directly after exit conference.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2020
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2020-003 The Fiscal Court Did Not Have Controls Over Disbursements

This is a repeat finding and was included in the prior year report as finding 2019-004.

The fiscal court did not have sufficient controls over disbursements during the fiscal year 2020.

During disbursement testing, the following was noted:

- Seven invoices, totaling \$208,386, were not paid within thirty days
- Late payments incurred finance charges
- Purchase orders were issued but did not include amounts
- Encumbrances were not reported for committed funds

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

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

The Department for Local Government's *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 timely payment, monitoring, and reporting of disbursements.

Views of Responsible Official and Planned Corrective Action:

All invoices will be made in a timely manner. Invoices will be kept in monthly folders after being paid. Purchase orders will include budget amounts for purchases. Encumbrances are all being reported.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2020
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2020-004 The Fiscal Court Did Not Pay Withholdings Timely

This is a repeat finding and was included in the prior year report as finding 2019-006.

The fiscal court is withholding federal and state taxes 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 have been paid timely since February 2020. Withholding schedule was made and followed.

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

OWSLEY COUNTY FISCAL COURT

For The Year Ended June 30, 2020

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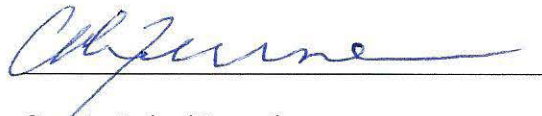
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

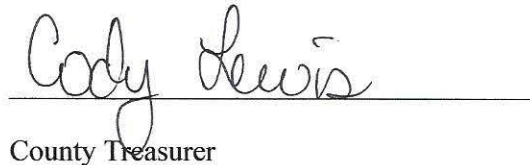
OWSLEY COUNTY FISCAL COURT

For The Year Ended June 30, 2020

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 "Ch. J. ...", written over a horizontal line.

County Judge/Executive

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

County Treasurer