

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

**For The Fiscal Year Ended
June 30, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWEN COUNTY FISCAL COURT

June 30, 2015

The Auditor of Public Accounts has completed the audit of the Owen County Fiscal Court for fiscal year ended June 30, 2015.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Owen County Fiscal Court.

Financial Condition:

The Owen County Fiscal Court had total receipts of \$5,717,137 and disbursements of \$5,985,348 in fiscal year 2015. This resulted in a total ending fund balance of \$881,313, which is a decrease of \$268,211 from the prior year.

Report Comments:

- 2015-001 The County Did Not Include Public Properties Debt In The Amount Of \$10,095,000 On The Fourth Quarter Report
- 2015-002 The County's Master Capital Assets Listing Was Materially Misstated

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Casey Ellis, Owen County Judge/Executive
Honorable Carolyn Keith, Former Owen County Judge/Executive
Members of the Owen 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 Owen County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Owen 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.



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Auditor's Responsibility (Continued)

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

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

As described more fully in Note 1 of the financial statement, the financial statement is prepared by the Owen 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 Owen County Fiscal Court as of June 30, 2015, 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 Owen County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Owen County Fiscal Court. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

To the People of Kentucky
 Honorable Matthew G. Bevin, Governor
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Other Matters (Continued)

Supplementary Information (Continued)

The accompanying budgetary comparison schedules and capital asset schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, and capital asset schedule fairly stated in all material respects in relation to the basic financial statement.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2016 on our consideration of the Owen 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 Owen County Fiscal Court's internal control over financial reporting and compliance.

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

- 2015-001 The County Did Not Include Public Properties Debt In The Amount Of \$10,095,000 On The Fourth Quarter Report
- 2015-002 The County's Master Capital Assets Listing Was Materially Misstated

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

July 18, 2016

OWEN COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

Robert "Casey" Ellis	County Judge/Executive
Todd Spurgeon	Magistrate
Stuart Bowling	Magistrate
Teresa Davis	Magistrate
Travis Fitzgerald	Magistrate

Other Elected Officials:

Josh Smith	County Attorney
Cindy Bruce Walker	Jailer
Laurel Stivers	County Clerk
Margaret Forsee	Circuit Court Clerk
Mark Bess	Sheriff
Jimmy Coyle	Property Valuation Administrator
Lannis Garnett	Coroner

Appointed Personnel:

Meagan Greenlee	County Treasurer
Pam Miller	Deputy Judge/Finance Officer

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

For The Year Ended June 30, 2015

	Budgeted Funds				
	General Fund	Road Fund	Jail Fund	Transient Tax Tourism Fund	E-911 Fund
RECEIPTS					
Taxes	\$ 1,533,155	\$	\$	\$ 35,914	\$ 21,822
Excess Fees	152,987				
Licenses and Permits	185				
Intergovernmental	342,044	1,691,850	93,202		
Charges for Services	868,148		130		
Miscellaneous	50,388	7,852			
Interest	2,165	2,010	122		103
Total Receipts	<u>2,949,072</u>	<u>1,701,712</u>	<u>93,454</u>	<u>35,914</u>	<u>21,925</u>
DISBURSEMENTS					
General Government	1,072,246				
Protection to Persons and Property	793,992		302,958		3,077
General Health and Sanitation	162,430				
Social Services	207,973				
Recreation and Culture	117,823			34,988	
Roads		1,410,330			
Debt Service	4,000				
Capital Projects					
Administration	616,660	208,064	17,760		
Total Disbursements	<u>2,975,124</u>	<u>1,618,394</u>	<u>320,718</u>	<u>34,988</u>	<u>3,077</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(26,052)</u>	<u>83,318</u>	<u>(227,264)</u>	<u>926</u>	<u>18,848</u>
Other Adjustments to Cash (Uses)					
Transfers From Other Funds	17,145		220,058		5
Transfers To Other Funds	<u>(220,063)</u>	<u>(17,145)</u>			
Total Other Adjustments to Cash (Uses)	<u>(202,918)</u>	<u>(17,145)</u>	<u>220,058</u>		<u>5</u>
Net Change in Fund Balance	(228,970)	66,173	(7,206)	926	18,853
Fund Balance - Beginning	556,363	337,273	79,876	3,195	48,239
Fund Balance - Ending	<u>\$ 327,393</u>	<u>\$ 403,446</u>	<u>\$ 72,670</u>	<u>\$ 4,121</u>	<u>\$ 67,092</u>
Composition of Fund Balance					
Bank Balance	\$ 295,358	\$ 284,615	\$ 94,347	\$ 4,121	\$ 67,092
Less: Outstanding Checks	(55,038)	(38,953)	(21,677)		
Certificates of Deposit	<u>87,073</u>	<u>157,784</u>			
Fund Balance - Ending	<u>\$ 327,393</u>	<u>\$ 403,446</u>	<u>\$ 72,670</u>	<u>\$ 4,121</u>	<u>\$ 67,092</u>

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

OWEN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

Unbudgeted Fund

Public Properties Corporation Fund	Total Funds
\$	\$ 1,590,891
	152,987
	185
915,040	3,042,136
	868,278
	58,240
20	4,420
<u>915,060</u>	<u>5,717,137</u>
	1,072,246
	1,100,027
	162,430
	207,973
	152,811
	1,410,330
909,455	913,455
122,052	122,052
1,540	844,024
<u>1,033,047</u>	<u>5,985,348</u>
	(117,987)
<u>(117,987)</u>	<u>(268,211)</u>
	237,208
	<u>(237,208)</u>
	(117,987)
	(268,211)
124,578	1,149,524
<u>\$ 6,591</u>	<u>\$ 881,313</u>
	\$ 752,124
\$ 6,591	(115,668)
	<u>244,857</u>
<u>\$ 6,591</u>	<u>\$ 881,313</u>

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

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TO THE FINANCIAL STATEMENT**

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OWEN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Owen County includes all budgeted and unbudgeted funds under the control of the Owen 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 Government 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 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 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.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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.

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 government, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Transient Tax-Tourism Fund - The primary purpose of this fund is to account for transient room tax receipts and disbursements. The primary source of receipts for this fund is transient room taxes.

E-911 Fund - The primary purpose of this fund is to account for the dispatch expenses of the county. The primary source of receipts for this fund is the 911 telephone surcharge.

Unbudgeted Fund

The fiscal court reports the following unbudgeted fund:

Public Facilities Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

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 Government 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.

The State Local Finance Officer does not require the Public Facilities Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Owen County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Owen 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 Owen 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 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).

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.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the 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.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2015, 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 2015.

	General Fund	Road Fund	Total Transfers In
General Fund	\$	\$ 17,145	\$ 17,145
Jail Fund	220,058		220,058
E911 Fund	5		5
Total Transfers Out	<u>\$ 220,063</u>	<u>\$ 17,145</u>	<u>\$ 237,208</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. Long-term Debt

A. Public Properties Corporation – Court Facilities Project

In April of 2010, Owen County Public Properties Corporation entered into an agreement for the issuance of \$12,555,000 First Mortgage Revenue Bonds, Series 2010, for the costs of the justice center project. The bonds were issued for a 20 year period, with semi-annual interest payments due May 1 and November 1 each year, beginning November 1, 2010, and principal due upon maturity at May 1, 2030. As of June 30, 2015, the principal amount outstanding is \$10,095,000. The following schedule outlines debt service requirements for the revenue bonds.

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 520,000	\$ 387,725
2017	535,000	373,165
2018	555,000	357,115
2019	570,000	339,077
2020	590,000	319,698
2021-2025	3,305,000	1,243,650
2026-2030	<u>4,020,000</u>	<u>521,380</u>
Totals	<u>\$ 10,095,000</u>	<u>\$ 3,541,810</u>

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt (Continued)

B. Capital Lease – Ambulance

In July of 2013, the Owen County Fiscal Court entered into a lease purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of an ambulance. The original lease was for \$70,000 and the county paid \$17,267 toward this lease during fiscal year 2015, leaving a balance of \$37,433. The lease is scheduled to be paid in monthly increments with final payment due in July 2017.

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 17,717	\$ 991
2017	18,179	386
2018	1,537	5
Totals	<u>\$ 37,433</u>	<u>\$ 1,382</u>

C. Capital Lease – Sheriff Vehicle

In October of 2014, the Owen County Fiscal Court entered into a lease purchase agreement for the purchase of a sheriff's vehicle. The original lease was for \$32,000 and the county paid \$9,423 toward this lease during fiscal year 2015, leaving a balance of \$22,577. The lease is scheduled to be paid in \$8,000 yearly increments with final payment due in October 2018.

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 7,185	\$ 815
2017	7,546	454
2018	7,846	154
Totals	<u>\$ 22,577</u>	<u>\$ 1,423</u>

D. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 10,605,000	\$	\$ 510,000	\$10,095,000	\$ 520,000
Financing Obligations	54,700	32,000	26,690	60,010	24,902
Total Long-term Debt	<u>\$ 10,659,700</u>	<u>\$ 32,000</u>	<u>\$ 536,690</u>	<u>\$10,155,010</u>	<u>\$ 544,902</u>

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Employee Retirement System

A. Plan Description

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 (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous *and hazardous duty* positions in the county. The Plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 34.31 percent.

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 account. Members contribute five percent (nonhazardous) and eight percent (hazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) and seven and one-half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2013 was \$352,674, FY 2014 was \$341,817, and FY 2015 was \$254,741.

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.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

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

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

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Employee Retirement System (Continued)

A. Plan Description (Continued)

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, non-hazardous 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.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

B. Net Pension Liability

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, the Owen County Fiscal Court's proportionate share of the net pension liability as of June 30, 2015 is:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Hazardous	\$ 405,000	\$ 362,000
Non-Hazardous	<u>2,163,000</u>	<u>1,912,000</u>
Totals	<u>\$ 2,568,000</u>	<u>\$ 2,274,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 6. Deferred Compensation

The Owen County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits 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 Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 7. Insurance

For the fiscal year ended June 30, 2015, Owen 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 8. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to American Water Company for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certifications of participation, or similar debt instruments issued to benefit a third party that is not part of the reporting entity. Although conduit debt obligations bear the Owen County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third part on whose behalf of it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2015, there were revenue bonds outstanding, with an aggregate principal amount payable of \$97,390,000.

Note 9. Subsequent Event - New Debt

On April 28, 2016, the Owen County Fiscal Court borrowed \$99,032 for a 2013 Mercedes ambulance. The promissory note, which matures on April 16, 2021, requires monthly payments of \$990.

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OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,372,500	\$ 1,377,655	\$ 1,533,155	\$ 155,500
Excess Fees	23,259	152,987	152,987	
Licenses and Permits	200	200	185	(15)
Intergovernmental	1,006,346	1,014,663	342,044	(672,619)
Charges for Services	804,000	804,000	868,148	64,148
Miscellaneous	21,700	51,375	50,388	(987)
Interest	2,500	2,500	2,165	(335)
Total Receipts	3,230,505	3,403,380	2,949,072	(454,308)
DISBURSEMENTS				
General Government	1,199,463	1,322,197	1,072,246	249,951
Protection to Persons and Property	927,328	869,332	793,992	75,340
General Health and Sanitation	142,164	176,740	162,430	14,310
Social Services	620,016	621,374	207,973	413,401
Recreation and Culture	104,700	138,450	117,823	20,627
Debt Service	3,950	4,000	4,000	
Administration	632,649	740,558	616,660	123,898
Total Disbursements	3,630,270	3,872,651	2,975,124	897,527
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(399,765)	(469,271)	(26,052)	443,219
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	145,000	145,000	17,145	(127,855)
Transfers To Other Funds	(245,235)	(245,235)	(220,063)	25,172
Total Other Adjustments to Cash (Uses)	(100,235)	(100,235)	(202,918)	(102,683)
Net Change in Fund Balance	(500,000)	(569,506)	(228,970)	340,536
Fund Balance Beginning	500,000	556,362	556,363	1
Fund Balance - Ending	\$ 0	\$ (13,144)	\$ 327,393	\$ 340,537

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,811,298	\$ 1,811,298	\$ 1,691,850	\$ (119,448)
Miscellaneous	4,000	4,000	7,852	3,852
Interest	2,500	2,500	2,010	(490)
Total Receipts	<u>1,817,798</u>	<u>1,817,798</u>	<u>1,701,712</u>	<u>(116,086)</u>
DISBURSEMENTS				
Roads	1,403,740	1,770,592	1,410,330	360,262
Administration	354,058	222,334	208,064	14,270
Total Disbursements	<u>1,757,798</u>	<u>1,992,926</u>	<u>1,618,394</u>	<u>374,532</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>60,000</u>	<u>(175,128)</u>	<u>83,318</u>	<u>258,446</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(145,000)</u>	<u>(145,000)</u>	<u>(17,145)</u>	<u>127,855</u>
Total Other Adjustments to Cash (Uses)	<u>(145,000)</u>	<u>(145,000)</u>	<u>(17,145)</u>	<u>127,855</u>
Net Change in Fund Balance	(85,000)	(320,128)	66,173	386,301
Fund Balance Beginning	<u>85,000</u>	<u>337,273</u>	<u>337,273</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 17,145</u>	<u>\$ 403,446</u>	<u>\$ 386,301</u>

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 88,000	\$ 90,636	\$ 93,202	\$ 2,566
Charges for Services	75	75	130	55
Miscellaneous	100	100		(100)
Interest		82	122	40
Total Receipts	<u>88,175</u>	<u>90,893</u>	<u>93,454</u>	<u>2,561</u>
DISBURSEMENTS				
Protection to Persons and Property	313,280	398,391	302,958	95,433
Administration	20,130	21,614	17,760	3,854
Total Disbursements	<u>333,410</u>	<u>420,005</u>	<u>320,718</u>	<u>99,287</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(245,235)</u>	<u>(329,112)</u>	<u>(227,264)</u>	<u>101,848</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>245,235</u>	<u>245,235</u>	<u>220,058</u>	<u>(25,177)</u>
Total Other Adjustments to Cash (Uses)	<u>245,235</u>	<u>245,235</u>	<u>220,058</u>	<u>(25,177)</u>
Net Change in Fund Balance		(83,877)	(7,206)	76,671
Fund Balance Beginning		<u>79,876</u>	<u>79,876</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (4,001)</u>	<u>\$ 72,670</u>	<u>\$ 76,671</u>

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

TRANSIENT TAX TOURISM FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 35,000	\$ 35,000	\$ 35,914	\$ 914
Total Receipts	<u>35,000</u>	<u>35,000</u>	<u>35,914</u>	<u>914</u>
DISBURSEMENTS				
Recreation and Culture	35,000	35,000	34,988	12
Total Disbursements	<u>35,000</u>	<u>35,000</u>	<u>34,988</u>	<u>12</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>926</u>	<u>926</u>
Net Change in Fund Balance			926	926
Fund Balance Beginning			<u>3,195</u>	<u>3,195</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,121</u>	<u>\$ 4,121</u>

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

E911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 26,000	\$ 26,000	\$ 21,822	\$ (4,178)
Interest	24	24	103	79
Total Receipts	<u>26,024</u>	<u>26,024</u>	<u>21,925</u>	<u>(4,099)</u>
DISBURSEMENTS				
Protection to Persons and Property Administration	26,024	26,024	3,077	22,947
Total Disbursements	<u>46,024</u>	<u>46,024</u>	<u>3,077</u>	<u>42,947</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>18,848</u>	<u>38,848</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			5	5
Total Other Adjustments to Cash (Uses)			<u>5</u>	<u>5</u>
Net Change in Fund Balance	(20,000)	(20,000)	18,853	38,853
Fund Balance Beginning	<u>20,000</u>	<u>20,000</u>	<u>48,239</u>	<u>28,239</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 67,092</u>	<u>\$ 67,092</u>

OWEN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to 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.

OWEN COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015

OWEN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land (Restated)	\$ 620,000	\$	\$	\$ 620,000
Land Improvements	50,000			50,000
Buildings and Building Improvements (Restated)	12,997,735			12,997,735
Vehicles & Equipment (Restated)	3,218,538	110,515		3,329,053
Infrastructure	35,796,067			35,796,067
Total Capital Assets	<u>\$ 52,682,340</u>	<u>\$ 110,515</u>	<u>\$ 0</u>	<u>\$52,792,855</u>

OWEN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2015

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 Improvements	\$ 2,000	10-60
Buildings and Building Improvements	\$ 2,000	10-75
Equipment	\$ 2,000	3-25
Vehicles	\$ 2,000	3-25
Infrastructure	\$ 2,000	10-50

Note 2. Restatement of Capital Assets Beginning Balance

Land beginning balance was restated \$5,000, buildings beginning balance was restated \$27,900, and vehicles and equipment beginning balance was restated by \$92,980 due to errors and omissions in prior years.

**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***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Casey Ellis, Owen County Judge/Executive
The Honorable Carolyn Keith, Former Owen County Judge/Executive
Members of the Owen 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 Owen County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Owen County Fiscal Court's financial statement and have issued our report thereon dated July 18, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Owen 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 opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Owen County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Owen 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 comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-001 and 2015-002 to be material weaknesses.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owen 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County Judge/Executive's Responses to Findings

The Owen County Judge/Executive's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The county judge/executive'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,



Mike Harmon
Auditor of Public Accounts

July 18, 2016

**OWEN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2015

OWEN COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2015

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2015-001 The County Did Not Include Public Properties Debt In The Amount Of \$10,095,000 On The Fourth Quarter Report

The county did not include public properties debt on the fourth quarter report, which also serves as the county's year-end financial statement. Policies and procedures were not in place to ensure accurate reporting of the county's debt. This resulted in the liability section of the quarterly report being incorrect and materially understated by \$10,095,000. The State Local Finance Officer requires that all liabilities be shown in section III of the fourth quarter report. We recommend the county include all county debt on the quarterly report in the future.

Casey Ellis, Owen County Judge/Executive Response: After consultation with State Auditor officials, new fourth quarter reporting procedures of all Public Properties debt has been incorporated within quarter reporting standards.

2015-002 The County's Master Capital Assets Listing Was Materially Misstated

The county did not maintain an accurate capital asset listing. The listing provided to auditors at engagement appeared to be an inventory listing including items that did not exceed the capitalization threshold. Auditors gave the county a copy of the prior year audited capital asset listing. The county updated this listing and returned it as their master capital assets listing. Our review of the fiscal court minutes and the county's disbursement ledger disclosed \$110,515 of capital asset purchases during fiscal year 2015 that were not on the county's master capital asset listing. In addition, their master listing included \$5,000 of land, \$27,900 of buildings, and \$92,980 of vehicles and equipment acquired in previous years, requiring adjustments to their capital assets beginning balance. Lastly, of our sample, three assets were not added to the county's insurance, while another asset was not added to the policy timely.

Capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. Strong controls reduce the risk of asset misappropriation.

In order to strengthen the county's internal controls over capital assets, we recommend the county establish a detailed inventory system. This system should include a detailed description of the asset, an inventory control number or serial number, the date acquired, location, date destroyed or sold as surplus, and a brief description as to why the asset was discarded. The inventory of county assets should be updated as new assets are purchased or sold. We also recommend the county reconcile asset purchases and disposals with the expenditures ledger and receipts ledger. The county should also conduct a physical inspection of county assets at the end of each year and make comparisons to the county's list of inventoried assets and insurance policy.

Casey Ellis, Owen County Judge/Executive Response: Owen County Fiscal Court will officially adopt a Capital Asset and Inventory policy in August 2016. The policy will address all DLG reporting standards along with all financial values for all capital and non-capital assets.

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