

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

**For The Year Ended  
June 30, 2018**



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

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Larry Curling, Caldwell County Judge/Executive

The Honorable Ellen Dunning, Former Caldwell County Judge/Executive

Members of the Caldwell 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 Caldwell County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Caldwell 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 in Note 1 of the financial statement, the financial statement is prepared by the Caldwell 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 Caldwell County Fiscal Court as of June 30, 2018, or changes in financial position or cash flows thereof for the year then ended.

**Basis for Qualified Opinion on Regulatory Basis of Accounting**

Caldwell County Fiscal Court did not provide adequate documentation for occupational tax receipts and net profit receipts. As a result, we were unable to obtain sufficient appropriate audit evidence to conclude that the financial statement as a whole is free from material misstatement.

**Qualified Opinion on Regulatory Basis of Accounting**

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion on Regulatory Basis of Accounting paragraph, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Caldwell County Fiscal Court as of June 30, 2018, 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.

To the People of Kentucky

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## **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 Caldwell County Fiscal Court. The Budgetary Comparison Schedules, Capital Asset Schedule, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules, Capital Asset Schedule, and Schedule of Expenditures of Federal Awards 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, Capital Asset Schedule, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statement as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2020, on our consideration of the Caldwell 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 Caldwell County Fiscal Court's internal control over financial reporting and compliance.

To the People of Kentucky  
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Members of the Caldwell County Fiscal Court

**Other Reporting Required by *Government Auditing Standards* (Continued)**

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

- 2018-001 The Caldwell County Fiscal Court Has Internal Control Weaknesses And Non-Compliances Over Occupational Tax And Net Profit Taxes
- 2018-002 Weak Internal Controls Resulted In The Misstatement Of Capital Assets On The County's Schedule Of Capital Assets
- 2018-003 The Caldwell County Jail Does Not Have An Adequate Accounts Receivable Process
- 2018-004 The Caldwell County Jail Does Not Have Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

September 17, 2020



**CALDWELL COUNTY OFFICIALS****For The Year Ended June 30, 2018****Fiscal Court Members:**

Ellen Dunning	County Judge/Executive
Elbert Bennett	Magistrate
Larry Curling	Magistrate
Phillip Sisk	Magistrate
Brent Stallins	Magistrate

**Other Elected Officials:**

Roy Massey, VI	County Attorney
Jon Pettit	Jailer
Toni Watson	County Clerk
Danny Hooks	Circuit Court Clerk
Stan Hudson	Sheriff
Ronald Wood	Property Valuation Administrator
Dwayne Trafford	Coroner

**Appointed Personnel:**

Glenda Harper	County Treasurer
Janie Kirk	Occupational Tax Collector
Tammy Brasher	Finance Officer
Wendall Lane	Road Supervisor
Cheryl Pettit	Jail Administrative Assistant

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

**For The Year Ended June 30, 2018**

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

**For The Year Ended June 30, 2018**

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
<b>RECEIPTS</b>			
Taxes	\$ 2,948,665	\$	\$
In Lieu Tax Payments	49,018		
Excess Fees	24,809		
Licenses and Permits	10,267		
Intergovernmental	596,356	1,553,127	201,830
Charges for Services	30,000		79,389
Miscellaneous	28,601	1,935	12,112
Interest	128	316	70
Total Receipts	<u>3,687,844</u>	<u>1,555,378</u>	<u>293,401</u>
<b>DISBURSEMENTS</b>			
General Government	1,394,057		
Protection to Persons and Property	552,742		592,021
General Health and Sanitation	53,500		
Social Services	8,944		
Recreation and Culture	52,502		
Roads		1,100,000	
Airports	10,000		
Debt Service	153,730		
Capital Projects			
Administration	628,249	221,254	200,230
Total Disbursements	<u>2,853,724</u>	<u>1,321,254</u>	<u>792,251</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>834,120</u>	<u>234,124</u>	<u>(498,850)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Change In Payroll Revolving Account	34,514		
Transfers From Other Funds	220,778		500,000
Transfers To Other Funds	<u>(849,000)</u>	<u>(220,778)</u>	
Total Other Adjustments to Cash (Uses)	<u>(593,708)</u>	<u>(220,778)</u>	<u>500,000</u>
Net Change in Fund Balance	240,412	13,346	1,150
Fund Balance - Beginning (Restated)	<u>1,166,297</u>	<u>660,625</u>	<u>44,556</u>
Fund Balance - Ending	<u>1,406,709</u>	<u>\$ 673,971</u>	<u>\$ 45,706</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 1,360,128	\$ 686,179	\$ 53,474
Less: Outstanding Checks	(8,913)	(12,208)	(7,768)
Payroll Revolving Account	55,494		
Fund Balance - Ending	<u>\$ 1,406,709</u>	<u>\$ 673,971</u>	<u>\$ 45,706</u>

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

**CALDWELL COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2018**  
**(Continued)**

Budgeted Funds			Unbudgeted Funds		
Local Government Economic Assistance Fund	Grant Fund	Ambulance Fund	General Obligation Bond Fund	Jail Commissary Fund	Total Funds
\$	\$	\$	\$	\$	\$ 2,948,665
					49,018
					24,809
					10,267
253,756	814,382	10,000			3,429,451
4,922		3,158			117,469
3,399		99,618		145,296	290,961
91		75			680
<u>262,168</u>	<u>814,382</u>	<u>112,851</u>		<u>145,296</u>	<u>6,871,320</u>
39,501					1,433,558
		429,837			1,574,600
170,254					223,754
					8,944
				130,676	183,178
					1,100,000
					10,000
			128,438		282,168
	814,381				814,381
63,000		75,117			1,187,850
<u>272,755</u>	<u>814,381</u>	<u>504,954</u>	<u>128,438</u>	<u>130,676</u>	<u>6,818,433</u>
(10,587)	1	(392,103)	(128,438)	14,620	52,887
					34,514
		349,000			1,069,778
					(1,069,778)
		<u>349,000</u>			<u>34,514</u>
(10,587)	1	(43,103)	(128,438)	14,620	87,401
92,691	10	61,580	128,438	44,966	2,199,163
<u>\$ 82,104</u>	<u>\$ 11</u>	<u>\$ 18,477</u>	<u>\$ 0</u>	<u>\$ 59,586</u>	<u>2,286,564</u>
\$ 84,019	\$ 11	\$ 35,970	\$	\$ 62,747	\$ 2,282,528
(1,915)		(17,493)		(3,161)	(51,458)
					55,494
<u>\$ 82,104</u>	<u>\$ 11</u>	<u>\$ 18,477</u>	<u>\$ 0</u>	<u>\$ 59,586</u>	<u>\$ 2,286,564</u>

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

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**CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2018**

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

**A. Reporting Entity**

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

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

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

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

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

**Budgeted Funds (Continued)**

Local Government Economic Assistance 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.

Grant Fund - The primary purpose of this fund is to account for the receipts and disbursements of state and federal grants.

Ambulance Fund - The primary purpose of this fund is to account for the ambulance expenses of the county. The primary source of receipts for this fund is transfers from the general fund.

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

General Obligation Bond Fund - The purpose of this fund is to account for the debt service requirements of the general obligation refunding bonds, series 2010.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates, or to enhance safety and security within the jail. The jailer is required to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

**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.

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The state local finance officer does not require the general obligation bond fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

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

**E. Caldwell County Elected Officials**

Kentucky law provides for election of the officials listed below from the geographic area constituting Caldwell 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 Caldwell County Fiscal Court.

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

**F. Deposits and Investments**

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

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Long-term Obligations**

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

**H. Jointly Governed Organizations and Joint Ventures**

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based upon these criteria, the following are considered jointly governed organizations of Caldwell County:

- Industrial Development Authority
- City-County Park



**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

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

**H. Jointly Governed Organizations and Joint Ventures (Continued)**

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 following are considered joint ventures of the Caldwell County Fiscal Court:

- Pennyrile West Park Industrial Authority
- Pennyrile Emergency Assistance Center

**Note 2. Deposits**

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

**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. However, as of June 30, 2018, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured           \$140,689

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2018.

	General Fund	Road Fund	Total Transfers In
General Fund	\$	\$ 220,778	\$ 220,778
Jail Fund	500,000		500,000
Ambulance Fund	349,000		349,000
Total Transfers Out	<u>\$ 849,000</u>	<u>\$ 220,778</u>	<u>\$ 1,069,778</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.

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 4. Agency Trust Funds**

Agency trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2018, was \$512.

**Note 5. Long-term Debt**

**A. General Obligations Refunding Bonds, Series 2010**

The Caldwell County Fiscal Court issued general obligation refunding bonds, series 2010, in the amount of \$1,550,000 for the purpose of refunding the series 1999 bonds. Interest on the bonds is payable each January and July 1, beginning July 1, 2011. These bonds were issued in principal amounts of \$5,000 and integral multiples thereof and mature at various dates beginning July 1, 2011 through January 1, 2024. The bonds were paid in full as of June 30, 2018.

**B. Jail Renovation/Fire Truck Refinance**

The Caldwell County Fiscal Court entered into a lease agreement with the Farmers Bank & Trust Company for the refinance of a 2011 fire truck and the jail renovation note in the amount of \$414,226.32. The terms of the lease agreement are monthly principal and interest payments at an interest rate of 2.25% for a four year period. The balance on the financing agreement as of June 30, 2018 was \$133,431. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 106,475	\$ 1,911
2020	26,956	141
Totals	<u>\$ 133,431</u>	<u>\$ 2,052</u>

**C. Ambulance**

On February 8, 2016, the Caldwell County Fiscal Court entered into a promissory note agreement with the First Southern National Bank for the purchase of a 2015 ambulance and a 2016 vehicle for the sheriff's office in the amount of \$130,253.00. The terms of the lease agreement are monthly principal and interest payments at an interest rate of 2.75% for a three year period. The balance on the financing agreement as of June 30, 2018 was \$29,383. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 29,383	\$ 315
Totals	<u>\$ 29,383</u>	<u>\$ 315</u>

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

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

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 125,000	\$	\$ 125,000	\$	\$
Financing Obligations	310,703		147,889	162,814	135,858
Total Long-term Debt	<u>\$ 435,703</u>	<u>\$ 0</u>	<u>\$ 272,889</u>	<u>\$ 162,814</u>	<u>\$ 135,858</u>

**Note 6. Employee Retirement System**

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2016 was \$364,274, FY 2017 was \$371,952, and FY 2018 was \$381,537.

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 19.18 percent.

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

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

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 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. Hazardous members contribute 8 percent of their annual creditable compensation and 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 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 hazardous member's account is credited with a 7.5 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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.

The county's contribution rate for hazardous employees was 31.55 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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.

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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, the 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.

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, 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%. 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% cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

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

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

Once members reach a minimum vesting period of 15 years, earn fifteen 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%. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. 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% COLA since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

D. 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%. 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.

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

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

Other Post-Employment Benefits (OPEB) (Continued)

E. 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.

F. 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 7. Deferred Compensation**

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

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 501 High Street, 2<sup>nd</sup> Floor, Frankfort, KY 40601, or by telephone at (502) 573-7925.

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 8. Health Reimbursement Account/Flexible Spending Account**

The Caldwell County Fiscal Court established a flexible spending account to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides \$3,000 a year for employees that opt out of health insurance and \$125 a month for employees with health insurance. The plan provides a debit card to each employee to pay for qualified medical expenses. The balance of the plan was \$13,689 on June 30, 2018.

**Note 9. Insurance**

For the fiscal year ended June 30, 2018, the Caldwell 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 10. Prior Period Adjustments**

The beginning balance of the general fund was restated and decreased by \$72 to account for an outstanding check.

**Note 11. Related Party Transactions**

- A. The former Caldwell County Judge/Executive is part owner of a business the county routinely purchases office supplies from. The county purchased \$116 of office supplies from this company during the fiscal year ended June 30, 2018.
- B. The Caldwell County Treasurer owns a company which manages accounting software. Caldwell County purchased the software prior to the county treasurer being selected as county treasurer. The county paid \$2,600 to this company for the software maintenance during the fiscal year ended June 30, 2018.

**Note 12. Payroll Revolving Account**

The reconciled balance of the payroll revolving account of \$55,494, as of June 30, 2018, The change in the payroll revolving account of \$34,514 was added to the general fund cash balance for financing reporting purposes.

**Note 13. Contingency**

Caldwell County is involved in a complaint filed with the Kentucky Commission on Human Rights and the U.S. Equal Employment Opportunity Commission. The commission has yet to give a determination at this time.

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

**For The Year Ended June 30, 2018**

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

**For The Year Ended June 30, 2018**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 2,617,150	\$ 2,617,150	\$ 2,948,665	\$ 331,515
In Lieu Tax Payments	48,900	48,900	49,018	118
Excess Fees	40,000	40,000	24,809	(15,191)
Licenses and Permits	7,000	7,000	10,267	3,267
Intergovernmental	536,550	536,550	596,356	59,806
Charges for Services	30,000	30,000	30,000	
Miscellaneous	19,000	19,000	28,601	9,601
Interest	50	50	128	78
Total Receipts	<u>3,298,650</u>	<u>3,298,650</u>	<u>3,687,844</u>	<u>389,194</u>
<b>DISBURSEMENTS</b>				
General Government	1,504,349	1,575,928	1,394,057	181,871
Protection to Persons and Property	600,880	624,283	552,742	71,541
General Health and Sanitation	53,500	53,500	53,500	
Social Services	10,900	11,900	8,944	2,956
Recreation and Culture	54,000	53,000	52,502	498
Airports	10,000	10,000	10,000	
Debt Service	154,900	200,900	153,730	47,170
Capital Projects	50,000	50,000		50,000
Administration	953,751	791,176	628,249	162,927
Total Disbursements	<u>3,392,280</u>	<u>3,370,687</u>	<u>2,853,724</u>	<u>516,963</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(93,630)</u>	<u>(72,037)</u>	<u>834,120</u>	<u>906,157</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	202,500	202,500	220,778	18,278
Transfers To Other Funds	<u>(1,029,770)</u>	<u>(1,029,770)</u>	<u>(849,000)</u>	<u>180,770</u>
Total Other Adjustments to Cash (Uses)	<u>(827,270)</u>	<u>(827,270)</u>	<u>(628,222)</u>	<u>199,048</u>
Net Change in Fund Balance	(920,900)	(899,307)	205,898	1,105,205
Fund Balance - Beginning (Restated)	<u>920,900</u>	<u>920,900</u>	<u>1,145,317</u>	<u>224,417</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 21,593</u>	<u>\$ 1,351,215</u>	<u>\$ 1,329,622</u>

**CALDWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,262,312	\$ 1,262,312	\$ 1,553,127	\$ 290,815
Miscellaneous	1,800	1,800	1,935	135
Interest			316	316
Total Receipts	<u>1,264,112</u>	<u>1,264,112</u>	<u>1,555,378</u>	<u>291,266</u>
<b>DISBURSEMENTS</b>				
Roads	1,485,600	1,509,348	1,100,000	409,348
Administration	300,900	277,152	221,254	55,898
Total Disbursements	<u>1,786,500</u>	<u>1,786,500</u>	<u>1,321,254</u>	<u>465,246</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(522,388)</u>	<u>(522,388)</u>	<u>234,124</u>	<u>756,512</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	<u>(202,500)</u>	<u>(202,500)</u>	<u>(220,778)</u>	<u>(18,278)</u>
Total Other Adjustments to Cash (Uses)	<u>(202,500)</u>	<u>(202,500)</u>	<u>(220,778)</u>	<u>(18,278)</u>
Net Change in Fund Balance	(724,888)	(724,888)	13,346	738,234
Fund Balance - Beginning	<u>724,888</u>	<u>724,888</u>	<u>660,625</u>	<u>(64,263)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 673,971</u>	<u>\$ 673,971</u>

**CALDWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 196,000	\$ 196,000	\$ 201,830	\$ 5,830
Charges for Services	50,000	50,000	79,389	29,389
Miscellaneous	23,800	23,800	12,112	(11,688)
Interest	30	30	70	40
Total Receipts	<u>269,830</u>	<u>269,830</u>	<u>293,401</u>	<u>23,571</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	672,050	678,146	592,021	86,125
Administration	264,800	258,704	200,230	58,474
Total Disbursements	<u>936,850</u>	<u>936,850</u>	<u>792,251</u>	<u>144,599</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(667,020)</u>	<u>(667,020)</u>	<u>(498,850)</u>	<u>168,170</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>642,020</u>	<u>642,020</u>	<u>500,000</u>	<u>(142,020)</u>
Total Other Adjustments to Cash (Uses)	<u>642,020</u>	<u>642,020</u>	<u>500,000</u>	<u>(142,020)</u>
Net Change in Fund Balance	(25,000)	(25,000)	1,150	26,150
Fund Balance - Beginning	<u>25,000</u>	<u>25,000</u>	<u>44,556</u>	<u>19,556</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 45,706</u>	<u>\$ 45,706</u>

**CALDWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Licenses and Permits	\$ 14,400	\$ 14,400	\$	\$ (14,400)
Intergovernmental	198,200	198,200	253,756	55,556
Charges for Services	3,300	3,300	4,922	1,622
Miscellaneous	8,550	8,550	3,399	(5,151)
Interest	50	50	91	41
Total Receipts	<u>224,500</u>	<u>224,500</u>	<u>262,168</u>	<u>37,668</u>
<b>DISBURSEMENTS</b>				
General Government	44,022	44,022	39,501	4,521
General Health and Sanitation	183,865	197,665	170,254	27,411
Social Services	3,500	3,500		3,500
Administration	84,100	70,300	63,000	7,300
Total Disbursements	<u>315,487</u>	<u>315,487</u>	<u>272,755</u>	<u>42,732</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(90,987)</u>	<u>(90,987)</u>	<u>(10,587)</u>	<u>80,400</u>
Net Change in Fund Balance	(90,987)	(90,987)	(10,587)	80,400
Fund Balance - Beginning	<u>90,987</u>	<u>90,987</u>	<u>92,691</u>	<u>1,704</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 82,104</u>	<u>\$ 82,104</u>

**CALDWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>GRANT FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,000,000	\$ 1,000,000	\$ 814,382	\$ (185,618)
Total Receipts	<u>1,000,000</u>	<u>1,000,000</u>	<u>814,382</u>	<u>(185,618)</u>
<b>DISBURSEMENTS</b>				
Capital Projects	1,000,000	1,000,000	814,381	185,619
Total Disbursements	<u>1,000,000</u>	<u>1,000,000</u>	<u>814,381</u>	<u>185,619</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>1</u>	<u>1</u>
Net Change in Fund Balance			1	1
Fund Balance - Beginning			<u>10</u>	<u>10</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11</u>	<u>\$ 11</u>

**CALDWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>AMBULANCE FUND</b>			
	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 10,000	\$ 10,000	\$ 10,000	\$
Charges for Services			3,158	3,158
Miscellaneous	218,100	218,100	99,618	(118,482)
Interest	50	50	75	25
Total Receipts	<u>228,150</u>	<u>228,150</u>	<u>112,851</u>	<u>(115,299)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	530,300	529,173	429,837	99,336
Administration	91,600	114,320	75,117	39,203
Total Disbursements	<u>621,900</u>	<u>643,493</u>	<u>504,954</u>	<u>138,539</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(393,750)</u>	<u>(415,343)</u>	<u>(392,103)</u>	<u>23,240</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	387,750	387,750	349,000	(38,750)
Total Other Adjustments to Cash (Uses)	<u>387,750</u>	<u>387,750</u>	<u>349,000</u>	<u>(38,750)</u>
Net Change in Fund Balance	(6,000)	(27,593)	(43,103)	(15,510)
Fund Balance - Beginning	<u>6,000</u>	<u>6,000</u>	<u>61,580</u>	<u>55,580</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (21,593)</u>	<u>\$ 18,477</u>	<u>\$ 40,070</u>



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

**June 30, 2018**

**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. Reconciliation of the General Fund**

Other Adjustments to Cash (uses) - Budgetary Basis	\$ (628,222)
To adjust for Payroll Revolving Account	<u>34,514</u>
Total Other Adjustments to Cash (uses) - Regulatory Basis	<u>\$ (593,708)</u>
Fund Balance - Beginning - Budgetary Basis (Restated)	\$ 1,145,317
To adjust for Payroll Revolving Account	<u>20,980</u>
Total Fund Balance - Beginning - Regulatory Basis	<u>\$ 1,166,297</u>
Fund Balance - Ending - Budgetary Basis	\$ 1,351,215
To adjust for Payroll Revolving Account	<u>55,494</u>
Total Fund Balance - Ending - Regulatory Basis	<u>\$ 1,406,709</u>

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

**For The Year Ended June 30, 2018**

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

**For The Year Ended June 30, 2018**

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 453,422	\$	\$	\$ 453,422
Buildings	6,359,986	62,350		6,422,336
Vehicles and Other Equipment	3,489,405	156,913	76,310	3,570,008
Infrastructure	6,136,778	460,198		6,596,976
 Total Capital Assets	 <u>\$ 16,439,591</u>	 <u>\$ 679,461</u>	 <u>\$ 76,310</u>	 <u>\$ 17,042,742</u>

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

**June 30, 2018**

**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.

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land and Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Vehicles and Other Equipment	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**CALDWELL COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended June 30, 2018**

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**CALDWELL COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended June 30, 2018**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity's Identifying Number	Total Federal Expenditures
<b><u>U. S. Department of Housing and Urban Development</u></b>			
<i>Passed-Through State Department for Local Government:</i>			
Community Development Block Grants/State's Program	14.228	14-020	\$ 814,381
<b>Total U.S. Department of Housing and Urban Development</b>			<u>814,381</u>
<b><u>U. S. Department of Homeland Security</u></b>			
<i>Passed-Through State Department of Military Affairs:</i>			
Emergency Management Performance Grants	97.042	Not Available	13,069
<b>Total U.S. Department of Homeland Security</b>			<u>13,069</u>
Total Expenditures of Federal Awards			<u>\$ 827,450</u>

The accompanying notes are an integral part of this schedule

**CALDWELL COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**June 30, 2018**

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Caldwell County, Kentucky under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Caldwell County, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Caldwell County, Kentucky.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the 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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**Note 3. Indirect Cost Rate**

Caldwell County has not adopted an indirect cost rate.

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

The Honorable Larry Curling, Caldwell County Judge/Executive  
The Honorable Ellen Dunning, Former Caldwell County Judge/Executive  
Members of the Caldwell 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 Caldwell County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Caldwell County Fiscal Court's financial statement and have issued our report thereon dated September 17, 2020. Our report qualified the opinion on the financial statement of the Caldwell County Fiscal Court because the fiscal court did not provide adequate documentation for occupational tax receipts and net profit receipts.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Caldwell 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 Caldwell County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Caldwell 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 Questioned Costs, 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 Schedule of Findings and Questioned Costs as items 2018-001, 2018-002, 2018-003, and 2018-004 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 Caldwell 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 matter that is required to be reported under *Government Auditing Standards*.

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

Caldwell County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. 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,



Mike Harmon  
Auditor of Public Accounts

September 17, 2020

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH UNIFORM GUIDANCE**

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

The Honorable Larry Curling, Caldwell County Judge/Executive  
The Honorable Ellen Dunning, Former Caldwell County Judge/Executive  
Members of the Caldwell County Fiscal Court

Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With Uniform Guidance

Independent Auditor's Report

**Report on Compliance for Each Major Federal Program**

We have audited the Caldwell County Fiscal Court's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Caldwell County Fiscal Court's major federal programs for the year ended June 30, 2018. The Caldwell County Fiscal Court's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Caldwell County Fiscal Court's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Caldwell County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Caldwell County Fiscal Court's compliance.



Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With Uniform Guidance  
(Continued)

**Opinion on Each Major Federal Program**

In our opinion, the Caldwell County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

**Report on Internal Control over Compliance**

Management of the Caldwell County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Caldwell County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Caldwell County Fiscal Court's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

September 17, 2020

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

**For The Year Ended June 30, 2018**

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

**For The Year Ended June 30, 2018**

**Section I: Summary of Auditor's Results**

***Financial Statement***

Type of report auditor issued: Adverse on GAAP and Qualified on Regulatory Basis

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Are any noncompliances material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

***Federal Awards***

Internal control over major programs:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major federal programs <i>unmodified</i>		
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants/State's Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**CALDWELL COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2018  
(Continued)**

**Section II: Financial Statement Findings**

***Internal Control - Material Weaknesses***

2018-001 The Caldwell County Fiscal Court Has Internal Control Weaknesses And Non-Compliances Over Occupational Tax And Net Profit Taxes

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The Caldwell County Fiscal Court failed to maintain ledgers for occupational tax and net profit taxes. The occupational tax administrator (OTA) provided auditors with a recap of deposits, rather than a subsidiary ledger for occupational and net profit tax receipts. Tax returns for companies were requested for testing of occupational tax and net profit, however the occupational tax administrator failed to provide requested information. The OTA refused to use software already purchased by the county that would have provided sufficient accounting records through a subsidiary ledger. Additionally, there was a lack of management oversight to verify that the OTA was keeping the required accounting records.

Failing to maintain ledgers may lead to misappropriation of assets, misleading financial statements, and causes the county to be non-compliant with state laws and regulations. Additionally, the lack of adequate documentation of occupational tax and net profit tax receipts caused the county to receive a modified audit opinion.

The Department of Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires all counties to maintain a uniform system which includes a cash receipts ledger. Further the Caldwell County Fiscal Court Occupational Tax Ordinance states "It shall be the duty of the Caldwell County Tax Administrator to collect and the Caldwell County Treasurer to receive the occupational taxes imposed by this Ordinance. The Tax Administrator and Treasurer shall keep records showing the amount received by him/her from each licensee and employer and the date of such receipt." Also good internal controls dictate that the occupational tax administrator should maintain documentation regarding taxes received.

We recommend the Caldwell County Fiscal Court require subsidiary ledgers as well as other supporting accounting records be maintained for occupational and net profit taxes. Additionally, we recommend the fiscal court provide proper management oversight by verifying that the OTA is using purchased software and that the occupational tax and net profit tax records are maintained as required by the county's Occupational Tax Ordinance.

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive's Response: Issues were addressed, and new procedures for bookkeeping, as well as new Occ. Tax software has been implemented.*

2018-002 Weak Internal Controls Resulted In The Misstatement Of Capital Assets On The County's Schedule Of Capital Assets

---

This is a repeat finding and was included in the prior year audit report as finding 2017-004. Material weaknesses exist over the reporting of capital assets of Caldwell County. The fiscal court failed to periodically conduct physical inspections of all assets to make comparisons to the capital asset list. The fiscal court's ending balance of the schedule of capital assets for the period of audit was misstated by \$624,062. However, numerous misstatements were noted involving asset additions and deletions because fiscal court did not properly update the capital asset list.

**CALDWELL COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2018  
(Continued)**

**Section II: Financial Statement Findings (Continued)**

*Internal Control - Material Weaknesses (Continued)*

2018-002 Weak Internal Controls Resulted In The Misstatement Of Capital Assets On The County's Schedule Of Capital Assets (Continued)

---

Additions were misstated overall by \$794,028 because some current year additions were excluded from the county's capital asset schedule. Furthermore, prior year additions had been reported as additions for the current year as well. Deletions were misstated overall by \$62,338 because items disposed in fiscal years 2019 and 2020 were shown as deletions for the current year. It was also noted that the vehicle identification numbers (VINs) were incorrect on a few assets.

These misstatements occurred because the fiscal court failed to emphasize strong internal controls over the reporting of capital assets and instead relied on a single employee without sufficient supervision. Due to these weak internal controls, capital assets are left vulnerable to misappropriation or misstatement. In this case, misstatements were able to occur without detection.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. In order to strengthen the fiscal court's internal controls over capital assets, we recommend the fiscal court establish a detailed inventory system. This system should include a detailed description of each fiscal court asset, an inventory control number or serial number, the date acquired, purchase price, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired. This system should be applied consistently in accordance with the county's capitalization policy. Also, all asset additions and retirements should be properly authorized by fiscal court and documented in the fiscal court minutes. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's inventoried assets.

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive's Response: Issues were addressed, and has been turned over to a different employee.*

2018-003 The Caldwell County Jail Does Not Have An Adequate Accounts Receivable Process

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The Caldwell County Jail does not have an adequate accounts receivable process. Upon release, the jail does not attempt to collect any monies from the inmates. If an inmate returns to the jail, then they will collect some of the owed fees then. The jail makes no attempt to collect the accounts receivable because management feels that the costs of trying to collect the monies owed by former inmates outweigh the benefits.

According to debt reports printed by the jail bookkeeper, the Caldwell County Jail has \$743,325 in outstanding receivables as of June 30, 2018, that could be collected. Prudent accounting practices require an attempt of collection for an account as large as the jail accounts receivable.

We recommend the jailer improve the accounts receivable process at the Caldwell County Jail and improve attempts to collect the outstanding accounts receivable balance.

**CALDWELL COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2018  
(Continued)**

**Section II: Financial Statement Findings (Continued)**

***Internal Control - Material Weaknesses (Continued)***

2018-003 The Caldwell County Jail Does Not Have An Adequate Accounts Receivable Process (Continued)

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive's Response: Will accept responses of jailer.*

*County Jailer's Response: The jail will correspond with the County Attorney to try to rectify the situation. Attempts were made to collect per diem and booking charges from the inmates released, however if the inmate is rearrested on non-payment of jail fees, they will end up owing the jail more than the original debt.*

2018-004 The Caldwell County Jail Does Not Have Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2017-005. The Caldwell County Jail does not have adequate segregation of duties over receipts and disbursements. The jail's finance officer collects receipts from the kiosks, has access and can make changes to the ledgers, and performs the monthly bank reconciliations. There was no documented review of daily check out sheets, postings to the receipts and disbursements ledgers, or financial statement preparation. Additionally, the Caldwell County Jail only requires one signature on checks.

Per the jailer, the Caldwell County Jail has limited options for establishing segregation of duties due to the small size of staff and limited resources. A lack of segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department for Local Government. In addition, too much control by one individual without oversight can lead to undetected irregularities to occur. Segregation of duties over these functions, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting.

We recommend the Caldwell County Jail segregate duties to the extent possible. If proper segregation of duties is not possible due to budget constraints, we recommend the Caldwell County Jail implement compensating controls over receipts and disbursements.

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive's Response: See Jailer's notes.*

*County Jailer's Response: Caldwell County Jail has a finance officer. We are making every effort to split up the duties between administration.*

**Section III: Federal Award Findings And Questioned Costs**

None.

**Section IV: Summary Schedule Of Prior Audit Findings**

None.



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

**CALDWELL COUNTY FISCAL COURT**

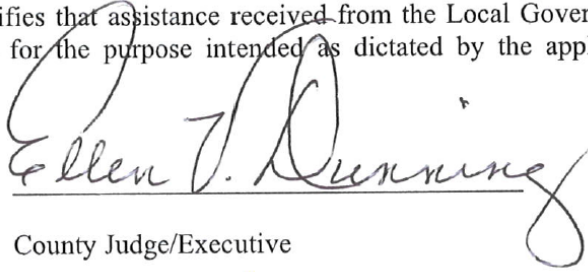
**For The Year Ended June 30, 2018**

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CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
CALDWELL COUNTY FISCAL COURT

For The Year Ended June 30, 2018

The Caldwell 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.



Ellen T. Dunning

County Judge/Executive



Glenda Hay

County Treasurer