

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

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



**MIKE HARMON
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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
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, 2019, 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.

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



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

As described in Note 1 of the financial statement, the financial statement is prepared by the 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, 2019, 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, 2019, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Caldwell County Fiscal Court. The Budgetary Comparison Schedules (supplementary information) and the Schedule of Capital Assets (other information) are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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Other Matters (Continued)

Supplementary and Other Information (Continued)

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 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.

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

- 2019-001 The Caldwell County Fiscal Court Has Internal Control Weaknesses And Non-Compliances Over Occupational Tax And Net Profit Taxes
- 2019-002 The Caldwell County Jail Does Not Have An Adequate Accounts Receivable Process

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

July 29, 2020

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

Larry Curling	County Judge/Executive
Elbert Bennett	Magistrate
Jeff Boone	Magistrate
Brent Stallins	Magistrate
Jeff Simms	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
Dewayne Trafford	Coroner

Appointed Personnel:

Glenda Harper	County Treasurer
Tammy Brasher	Finance Officer
Janie Kirk	Occupational Tax Administrator
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, 2019

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

For The Year Ended June 30, 2019

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 3,241,628	\$	\$
In Lieu Tax Payments	45,869		
Excess Fees	14,933		
Licenses and Permits	11,498		
Intergovernmental	597,980	1,390,895	285,617
Charges for Services			97,004
Miscellaneous	35,544	3,300	15,861
Interest	137	335	84
Total Receipts	<u>3,947,589</u>	<u>1,394,530</u>	<u>398,566</u>
DISBURSEMENTS			
General Government	1,345,451		
Protection to Persons and Property	529,885		621,751
General Health and Sanitation	53,500		
Social Services	7,900		
Recreation and Culture	53,048		
Roads		1,342,678	
Airports	17,000		
Debt Service	138,684		
Capital Projects			
Administration	683,895	235,325	226,311
Total Disbursements	<u>2,829,363</u>	<u>1,578,003</u>	<u>848,062</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,118,226</u>	<u>(183,473)</u>	<u>(449,496)</u>
Other Adjustments to Cash (Uses)			
Change In Payroll Revolving Account	(53,538)		
Transfers From Other Funds			450,000
Transfers To Other Funds	(824,050)		
Total Other Adjustments to Cash (Uses)	<u>(877,588)</u>		<u>450,000</u>
Net Change in Fund Balance	240,638	(183,473)	504
Fund Balance - Beginning (Restated)	1,393,083	673,972	45,711
Fund Balance - Ending	<u>1,633,721</u>	<u>490,499</u>	<u>46,215</u>
Composition of Fund Balance			
Bank Balance	\$ 1,778,277	\$ 684,456	\$ 59,380
Less: Outstanding Checks	(146,512)	(193,957)	(13,165)
Payroll Revolving Account	1,956		
Fund Balance - Ending	<u>\$ 1,633,721</u>	<u>\$ 490,499</u>	<u>\$ 46,215</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, 2019
(Continued)

<u>Budgeted Funds</u>			<u>Unbudgeted Fund</u>	
Local Government Economic Assistance Fund	Grant Fund	Ambulance Fund	Jail Commissary Fund	Total Funds
\$	\$	\$	\$	\$ 3,241,628
				45,869
				14,933
14,400				25,898
214,020	121,691	20,950		2,631,153
7,002		1,584		105,590
1,479		81,238	142,314	279,736
77		59	6	698
<u>236,978</u>	<u>121,691</u>	<u>103,831</u>	<u>142,320</u>	<u>6,345,505</u>
32,533				1,377,984
		417,301		1,568,937
161,610				215,110
460				8,360
			144,101	197,149
				1,342,678
				17,000
				138,684
	121,691			121,691
65,815		48,858		1,260,204
<u>260,418</u>	<u>121,691</u>	<u>466,159</u>	<u>144,101</u>	<u>6,247,797</u>
(23,440)		(362,328)	(1,781)	97,708
				(53,538)
		374,050		824,050
				(824,050)
		<u>374,050</u>		<u>(53,538)</u>
(23,440)		11,722	(1,781)	44,170
82,104	11	18,477	59,587	2,272,945
<u>\$ 58,664</u>	<u>\$ 11</u>	<u>\$ 30,199</u>	<u>\$ 57,806</u>	<u>\$ 2,317,115</u>
\$ 62,515	\$ 11	\$ 30,947	\$ 60,277	\$ 2,675,863
(3,851)		(748)	(2,471)	(360,704)
				1,956
<u>\$ 58,664</u>	<u>\$ 11</u>	<u>\$ 30,199</u>	<u>\$ 57,806</u>	<u>\$ 2,317,115</u>

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

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TO THE FINANCIAL STATEMENT**

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**CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2019

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments, 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.

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 Fund

The fiscal court reports the following unbudgeted funds:

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.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(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, 2019
(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 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. As of June 30, 2019, 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 \$517,816

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2019.

	General Fund	Total Transfers In
Jail Fund	\$ 450,000	\$ 450,000
Ambulance Fund	374,050	374,050
Total Transfers Out	\$ 824,050	\$ 824,050

Reason for transfers:

To move resources from the general fund, for budgetary purposes, to the funds that will expend them.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(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, 2019, was \$545.

Note 5. Long-term Debt

A. Direct Borrowings and Direct Placements

1. 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. 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, 2019 was \$26,956. Upon any default under this note, the holder of this note may, at its option, may make all or any part of the amount owing by the terms of this note immediately due. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 26,956	\$ 141
Totals	<u>\$ 26,956</u>	<u>\$ 141</u>

2. 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. The terms of the lease agreement are monthly principal and interest payments at an interest rate of 2.75% for a three year period. Upon declaration of a default under the terms of the Loan, including the failure to pay in full at maturity, interest will accrue on the unpaid principal balance of this note at a rate equal to the rate in effect prior to default, plus 5% until paid in full. The balance on the financing agreement as of June 30, 2019 was paid in full.

B. Changes in Long-Term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 162,814	\$	\$ 135,858	\$ 26,956	\$ 26,956
Total Long-term Debt	<u>\$ 162,814</u>	<u>\$ 0</u>	<u>\$ 135,858</u>	<u>\$ 26,956</u>	<u>\$ 26,956</u>

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

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 2017 was \$371,952, FY 2018 was \$381,537, and FY 2019 was \$389,085.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 21.48 percent.

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.

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

Note 6. Employee Retirement System (Continued)

Hazardous (Continued)

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 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 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 35.34 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:

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, 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.

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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

Once members reach a minimum vesting period of 15 years, they earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

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

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

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

Once members reach a minimum vesting period of 15 years, they 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 percent. 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 percent 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 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

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.

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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

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 is \$7,194 as of June 30, 2019.

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

Note 9. Insurance

For the fiscal year ended June 30, 2019, 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 general fund and jail fund were restated by (\$13,626) and \$5, respectively to account for outstanding checks.

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 \$1456 of office supplies from this company during the fiscal year ended June 30, 2019.
- 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 fiscal year ended June 30, 2019.

Note 12. Payroll Revolving Account

The reconciled balance of the payroll revolving account in the amount of \$1,956 as of June 30, 2019. The change in the payroll revolving account of (\$53,538) was added to the general fund cash balance for financial reporting purposes.

Note 13. Contingency

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

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

For The Year Ended June 30, 2019

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CALDWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,633,150	\$ 2,633,150	\$ 3,241,628	\$ 608,478
In Lieu Tax Payments	48,900	48,900	45,869	(3,031)
Excess Fees	25,000	25,000	14,933	(10,067)
Licenses and Permits	7,000	7,000	11,498	4,498
Intergovernmental	543,350	543,350	597,980	54,630
Charges for Services	30,000	30,000		(30,000)
Miscellaneous	19,200	19,200	35,544	16,344
Interest	50	50	137	87
Total Receipts	<u>3,306,650</u>	<u>3,306,650</u>	<u>3,947,589</u>	<u>640,939</u>
DISBURSEMENTS				
General Government	1,558,646	1,565,810	1,345,451	220,359
Protection to Persons and Property	604,324	605,459	529,885	75,574
General Health and Sanitation	53,500	53,500	53,500	
Social Services	10,900	10,900	7,900	3,000
Recreation and Culture	54,000	54,000	53,048	952
Airports	17,000	17,000	17,000	
Debt Service	139,113	185,139	138,684	46,455
Capital Projects	50,000	50,000		50,000
Administration	1,004,368	1,260,043	683,895	576,148
Total Disbursements	<u>3,491,851</u>	<u>3,801,851</u>	<u>2,829,363</u>	<u>972,488</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(185,201)</u>	<u>(495,201)</u>	<u>1,118,226</u>	<u>1,613,427</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	223,032	223,032		(223,032)
Transfers To Other Funds	<u>(1,078,896)</u>	<u>(1,078,896)</u>	<u>(824,050)</u>	<u>254,846</u>
Total Other Adjustments to Cash (Uses)	<u>(855,864)</u>	<u>(855,864)</u>	<u>(824,050)</u>	<u>31,814</u>
Net Change in Fund Balance	(1,041,065)	(1,351,065)	294,176	1,645,241
Fund Balance - Beginning (Restated)	<u>1,041,065</u>	<u>1,351,065</u>	<u>1,337,589</u>	<u>(13,476)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,631,765</u>	<u>\$ 1,631,765</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,291,812	\$ 1,390,831	\$ 1,390,895	\$ 64
Miscellaneous	1,500	3,350	3,300	(50)
Interest	300	300	335	35
Total Receipts	<u>1,293,612</u>	<u>1,394,481</u>	<u>1,394,530</u>	<u>49</u>
DISBURSEMENTS				
Roads	1,493,406	1,615,191	1,342,678	272,513
Administration	310,399	289,483	235,325	54,158
Total Disbursements	<u>1,803,805</u>	<u>1,904,674</u>	<u>1,578,003</u>	<u>326,671</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(510,193)</u>	<u>(510,193)</u>	<u>(183,473)</u>	<u>326,720</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(223,032)</u>	<u>(223,032)</u>		<u>223,032</u>
Total Other Adjustments to Cash (Uses)	<u>(223,032)</u>	<u>(223,032)</u>		<u>223,032</u>
Net Change in Fund Balance	(733,225)	(733,225)	(183,473)	549,752
Fund Balance - Beginning	<u>733,225</u>	<u>733,225</u>	<u>673,972</u>	<u>(59,253)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 490,499</u>	<u>\$ 490,499</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 193,000	\$ 274,000	\$ 285,617	\$ 11,617
Charges for Services	55,000	72,000	97,004	25,004
Miscellaneous	26,800	26,800	15,861	(10,939)
Interest	30	30	84	54
Total Receipts	<u>274,830</u>	<u>372,830</u>	<u>398,566</u>	<u>25,736</u>
DISBURSEMENTS				
Protection to Persons and Property	719,200	756,556	621,751	134,805
Administration	290,800	351,444	226,311	125,133
Total Disbursements	<u>1,010,000</u>	<u>1,108,000</u>	<u>848,062</u>	<u>259,938</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(735,170)</u>	<u>(735,170)</u>	<u>(449,496)</u>	<u>285,674</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds				
Transfers From Other Funds	685,170	685,170	450,000	(235,170)
Total Other Adjustments to Cash (Uses)	<u>685,170</u>	<u>685,170</u>	<u>450,000</u>	<u>(235,170)</u>
Net Change in Fund Balance	(50,000)	(50,000)	504	50,504
Fund Balance - Beginning (Restated)	<u>50,000</u>	<u>50,000</u>	<u>45,711</u>	<u>(4,289)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 46,215</u>	<u>\$ 46,215</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 14,400	\$ 14,400	\$ 14,400	\$
Intergovernmental	198,200	198,200	214,020	15,820
Charges for Services	3,300	3,300	7,002	3,702
Miscellaneous	750	750	1,479	729
Interest	50	50	77	27
Total Receipts	<u>216,700</u>	<u>216,700</u>	<u>236,978</u>	<u>20,278</u>
DISBURSEMENTS				
General Government	45,243	45,243	32,533	12,710
General Health and Sanitation	185,970	196,043	161,610	34,433
Social Services	3,500	3,500	460	3,040
Administration	92,650	82,577	65,815	16,762
Total Disbursements	<u>327,363</u>	<u>327,363</u>	<u>260,418</u>	<u>66,945</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(110,663)</u>	<u>(110,663)</u>	<u>(23,440)</u>	<u>87,223</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds				
Transfers From Other Funds	<u>19,676</u>	<u>19,676</u>		<u>(19,676)</u>
Total Other Adjustments to Cash (Uses)	<u>19,676</u>	<u>19,676</u>		<u>(19,676)</u>
Net Change in Fund Balance	(90,987)	(90,987)	(23,440)	67,547
Fund Balance - Beginning	<u>90,987</u>	<u>90,987</u>	<u>82,104</u>	<u>(8,883)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 58,664</u>	<u>\$ 58,664</u>

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

	GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 250,000	\$ 250,000	\$ 121,691	\$ (128,309)
Total Receipts	<u>250,000</u>	<u>250,000</u>	<u>121,691</u>	<u>(128,309)</u>
DISBURSEMENTS				
Capital Projects	250,000	250,000	121,691	128,309
Total Disbursements	<u>250,000</u>	<u>250,000</u>	<u>121,691</u>	<u>128,309</u>
Net Change in Fund Balance				
Fund Balance - Beginning			11	11
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, 2019
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 10,000	\$ 20,950	\$ 20,950	\$
Charges for Services			1,584	1,584
Miscellaneous	103,000	103,000	81,238	(21,762)
Interest	50	50	59	9
Total Receipts	<u>113,050</u>	<u>124,000</u>	<u>103,831</u>	<u>(20,169)</u>
DISBURSEMENTS				
Protection to Persons and Property	433,700	434,708	417,301	17,407
Administration	59,400	81,819	48,858	32,961
Total Disbursements	<u>493,100</u>	<u>516,527</u>	<u>466,159</u>	<u>50,368</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(380,050)</u>	<u>(392,527)</u>	<u>(362,328)</u>	<u>30,199</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>374,050</u>	<u>374,050</u>	<u>374,050</u>	
Total Other Adjustments to Cash (Uses)	<u>374,050</u>	<u>374,050</u>	<u>374,050</u>	
Net Change in Fund Balance	(6,000)	(18,477)	11,722	30,199
Fund Balance - Beginning	<u>6,000</u>	<u>18,477</u>	<u>18,477</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 30,199</u>	<u>\$ 30,199</u>

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

June 30, 2019

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of the General Fund

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ (824,050)
To adjust for Payroll Revolving Account	<u>(53,538)</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ (877,588)</u>
Fund Balance - Beginning - Budgetary Basis (Restated)	\$ 1,337,589
To adjust for Payroll Revolving Account	<u>55,494</u>
Total Fund Balance - Beginning - Regulatory Basis	<u>\$ 1,393,083</u>
Fund Balance - Ending - Budgetary Basis	\$ 1,631,765
To adjust for Payroll Revolving Account	<u>1,956</u>
Total Fund Balance - Ending - Regulatory Basis	<u>\$ 1,633,721</u>

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

For The Year Ended June 30, 2019

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CALDWELL COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2019

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 453,422	\$	\$	\$ 453,422
Buildings	6,422,336			6,422,336
Vehicles & Other Equipment	3,570,008	172,570	94,484	3,648,094
Infrastructure	6,596,976	947,169		7,544,145
 Total Capital Assets	 <u>\$ 17,042,742</u>	 <u>\$ 1,119,739</u>	 <u>\$ 94,484</u>	 <u>\$ 18,067,997</u>

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

June 30, 2019

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

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

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Curling, 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, 2019, 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 July 29, 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 Responses, 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 Responses as items 2019-001 and 2019-002 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 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 Official 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 Responses. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

July 29, 2020

**CALDWELL COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

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**CALDWELL COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

INTERNAL CONTROL – MATERIAL WEAKNESSES:

2019-001 The Caldwell County Fiscal Court Has Internal Control Weaknesses And Non-Compliances Over Occupational Tax And Net Profit Taxes

This is a repeat finding and was included in the prior year audit report as finding 2018-001. 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 were requested for companies for testing of occupational tax and net profit, however 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 for 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 fiscal court require subsidiary ledgers as well as other supporting accounting records be maintained for occupational and net profit taxes. Additionally, the fiscal court should 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:

County Judge/Executive's Response: Occupational and Net Profit Taxes control responsibility has been shifted to other departments.

2019-002 The Caldwell County Jail Does Not Have An Adequate Accounts Receivable Process

This is a repeat finding and was included in the prior year audit report as finding 2018-003. 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 \$1,203,691 in outstanding receivables as of June 30, 2019 that could be collected. Prudent accounting practices require an attempt of collection for an account as large as the Jail accounts receivable.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Caldwell County Jail Does Not Have An Adequate Accounts Receivable Process (Continued)

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The jailer will be responding to this question.

County Jailer's Response: The jail will correspond with the County Attorney to try to rectify this 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.

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

CALDWELL COUNTY FISCAL COURT

For The Year Ended June 30, 2019

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
COUNTY FISCAL COURT

For The Year Ended June 30, 2019

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.



County Judge/Executive



County Treasurer