

**REPORT OF THE AUDIT OF THE  
CALLOWAY 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 Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
The Honorable Larry Elkins, Former Calloway County Judge/Executive  
The Honorable Kenneth C. Imes, Calloway County Judge/Executive  
Members of the Calloway 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 Calloway County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Calloway 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.



To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

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Members of the Calloway County Fiscal Court

### **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 Calloway 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 Calloway County Fiscal Court as of June 30, 2018, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Calloway 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.

### **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 Calloway County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

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The Honorable Kenneth C. Imes, Calloway County Judge/Executive

Members of the Calloway County Fiscal Court

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2019, on our consideration of the Calloway 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 Calloway 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:

- 2018-001 Internal Control Deficiencies And Non-Compliances Exist Over The Collection Of Receipts At Off-Site Locations
- 2018-002 Weak Internal Controls Resulted In The Misstatement Of Capital Assets On The County's Schedule Of Capital Assets
- 2018-003 The Calloway County Fiscal Court Lacked Adequate Segregation Of Duties Over The Collection Of Receipts

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

June 13, 2019

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

Larry Elkins	County Judge/Executive
Eddie Clyde Hale	Magistrate
Timothy Todd	Magistrate
Donald Cherry	Magistrate
Johnny Gingles	Magistrate

**Other Elected Officials:**

K. Bryan Ernstberger	County Attorney
Kenneth Claud	Jailer
Antonia Faulkner	County Clerk
Linda Avery	Circuit Court Clerk
Sam Steger	Sheriff
Nikki Crouch	Property Valuation Administrator
Ricky Harris	Coroner (Retired 10/1/17)
Ricky Garland	Coroner (Appointed 10/2/17)

**Appointed Personnel:**

Anita Gallimore	County Treasurer
Tonya Robinson	Assistant County Treasurer



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

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

**CALLOWAY 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	\$ 3,650,150	\$	\$
In Lieu Tax Payments	106,403		
Excess Fees	117,858		
Licenses and Permits	51,677		
Intergovernmental	408,091	1,945,085	1,181,525
Charges for Services	13,814		172,131
Miscellaneous	135,201	123,143	166,007
Interest	38,972	460	241
Total Receipts	<u>4,522,166</u>	<u>2,068,688</u>	<u>1,519,904</u>
<b>DISBURSEMENTS</b>			
General Government	1,881,121		
Protection to Persons and Property	43,753		1,864,331
General Health and Sanitation	301,905		
Social Services	27,728		
Recreation and Culture	130,246		
Roads		3,517,385	
Debt Service		378,444	
Capital Projects	446,386		
Administration	348,477	452,169	583,255
Total Disbursements	<u>3,179,616</u>	<u>4,347,998</u>	<u>2,447,586</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,342,550</u>	<u>(2,279,310)</u>	<u>(927,682)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Borrowed Money		175,308	
Transfers From Other Funds		2,300,000	850,000
Transfers To Other Funds	(2,300,000)		
Total Other Adjustments to Cash (Uses)	<u>(2,300,000)</u>	<u>2,475,308</u>	<u>850,000</u>
Net Change in Fund Balance	(957,450)	195,998	(77,682)
Fund Balance - Beginning	5,211,718	191,189	246,461
Fund Balance - Ending	<u>\$ 4,254,268</u>	<u>\$ 387,187</u>	<u>\$ 168,779</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 4,296,981	\$ 399,405	\$ 187,282
Plus: Deposits In Transit			
Less: Outstanding Checks	(42,713)	(12,218)	(18,503)
Fund Balance - Ending	<u>\$ 4,254,268</u>	<u>\$ 387,187</u>	<u>\$ 168,779</u>

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

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

<u>Budgeted Funds</u>			<u>Unbudgeted Funds</u>		
<u>Local Government Economic Assistance Fund</u>	<u>Jail Grant Fund</u>	<u>Jail Construction Fund</u>	<u>Public Properties Corporation Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
\$	\$	\$ 10,585	\$	\$	\$ 3,660,735
					106,403
					117,858
					51,677
2,921			327,600		3,865,222
				143,093	185,945
	15,730	27,430	33	23	567,444
<u>2,921</u>	<u>15,730</u>	<u>38,015</u>	<u>327,633</u>	<u>143,116</u>	<u>8,638,173</u>
					1,881,121
					1,908,084
					301,905
					27,728
				159,159	289,405
2,921			327,600		3,520,306
					706,044
					446,386
			1,741		1,385,642
<u>2,921</u>	<u></u>	<u></u>	<u>329,341</u>	<u>159,159</u>	<u>10,466,621</u>
	15,730	38,015	(1,708)	(16,043)	(1,828,448)
					175,308
					3,150,000
		(850,000)			(3,150,000)
		(850,000)			175,308
	15,730	(811,985)	(1,708)	(16,043)	(1,653,140)
	1,495,053	3,005,501	1,708	44,099	10,195,729
<u>\$ 0</u>	<u>\$ 1,510,783</u>	<u>\$ 2,193,516</u>	<u>\$ 0</u>	<u>\$ 28,056</u>	<u>\$ 8,542,589</u>
\$	\$ 1,510,783	\$ 2,193,516	\$	\$ 28,191	\$ 8,616,158
				1,976	1,976
				(2,111)	(75,545)
<u>\$ 0</u>	<u>\$ 1,510,783</u>	<u>\$ 2,193,516</u>	<u>\$ 0</u>	<u>\$ 28,056</u>	<u>\$ 8,542,589</u>

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

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**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2018**

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

**A. Reporting Entity**

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

**CALLOWAY 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.

Jail Grant Fund - The fund was established to isolate state grant proceeds intended to offset construction costs of the county jail. These funds and associated earnings are intended to be used for future repayments of jail debt.

Jail Construction Fund - The purpose of this fund is to account for tax revenues generated for the payment for the new jail. Debt payments were transferred to the Public Properties Corporation for payment, but jail debt has since been paid in full.

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for lease payments made by the Administrative Office of the Courts (AOC) for the payment of debt on the judicial building bond issue.

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. This fund also accounts for monies held for inmates.

**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 public properties corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

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

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

**E. Calloway County Elected Officials**

Kentucky law provides for election of the officials listed below from the geographic area constituting Calloway 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 Calloway 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. Related Obligations and Joint Ventures**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organizations governing board. Based on this criteria, the following are considered related organizations of the Calloway County Fiscal Court:

Industrial Development Authority	Lynn Grove Water District
Fire Departments	Water District #2
South 641 Water District	Extension District
Almo/Dexter Water District	Conservation District
Library	

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

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

**H. Related Obligations 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 is considered a joint venture of the Calloway County Fiscal Court:

Murray Calloway County Hospital

**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. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note 3. Transfers**

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

	General Fund	Jail Construction Fund	Total Transfers In
Road Fund	\$ 2,300,000	\$	\$ 2,300,000
Jail Fund		850,000	850,000
Total Transfers Out	<u>\$ 2,300,000</u>	<u>\$ 850,000</u>	<u>\$ 3,150,000</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.



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

**Note 4. Operating Leases**

**A. John Deere 524L Loader Lease**

The Calloway County Fiscal Court entered into an operating lease with John Deere Financial on May 1, 2015, for the use of a John Deere 524L Wheel Loader at the road department. Payments are \$646 monthly for 36 months. As of June 30, 2018, the requirements of this lease had been satisfied.

**B. John Deere 672G Motor Graders Lease**

The Calloway County Fiscal Court entered into an operating lease with John Deere Financial on June 20, 2017, for the use of two John Deere 672G Road Motor Graders at the road department. Payments are \$4,609 monthly for 36 months with an option purchase price of \$402,612 on June 20, 2020. Future lease requirements are as follows:

Fiscal Year Ended June 30	Amount
2019	\$ 55,311
2020	46,093
Total Minimum Lease Payments	<u>\$ 101,404</u>

**C. John Deere 323E Compact Track Loader Lease**

The Calloway County Fiscal Court entered into an operating lease with John Deere Financial on June 20, 2017 for the use of two John Deere 672G Road Motor Graders at the road department. Payments are \$4,609 monthly for 36 months with an option purchase price of \$402,612 on June 20, 2020. Future lease requirements are as follows:

Fiscal Year Ended June 30	Amount
2019	\$ 14,061
2020	12,889
Total Minimum Lease Payments	<u>\$ 26,950</u>

**Note 5. Long-term Debt**

**A. Public Properties Corporation - 2008 Refunded Bonds**

The Calloway County Public Properties Corporation Reissued Revenue Refund Bonds: Series 2008 dated July 15, 2008, for \$2,590,000 to be used for the retirement of Bond Series 2007. Interest is payable semiannually for 10 years and varies from 3.93 percent to 5.1 percent. The Calloway County Public Properties Corporation has leased the building to the Commonwealth of Kentucky, Administrative Office of the Courts (AOC), and AOC is providing the debt service payments as described in the aforementioned lease. As of June 30, 2018, Calloway County is in compliance with the bond agreement and the debt had been retired.

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

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

**B. Mack Trucks/Tractor/Boom Mower - Financing Obligation**

On September 3, 2013, Calloway County entered into a financing agreement with Magnolia Bank through Kentucky Association of Counties Leasing Trust to purchase two Mack Trucks, a John Deere Tractor, and a Boom Mower for \$300,000. The terms of this agreement consist of 60 principal and interest payments due monthly at an interest rate of 4 percent. As of June 30, 2018, Calloway County was in compliance with the terms of this agreement. The principal balance as of June 30, 2018, was \$16,206. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 16,206	\$ 108
Totals	<u>\$ 16,206</u>	<u>\$ 108</u>

**C. Crawler Dozer - Financing Obligation**

On June 8, 2015, the county entered into a financial agreement with John Deere Credit to purchase a Crawler Dozer for \$161,000. The terms of this lease consist of 36 monthly payments of \$799 beginning June 8, 2015, and ending July 8, 2018, with an ending balloon payment of \$146,000. As of June 30, 2018, this financing agreement had been paid in full.

**D. Excavator - Financing Obligation**

On August 5, 2015, Calloway County entered into a financing agreement with Republic Bank through Kentucky Association of Counties Leasing Trust to purchase an excavator in the amount of \$250,000. The terms of this agreement consist of 72 principal and interest payments due monthly beginning September 20, 2015, and ending August 20, 2021. As of June 30, 2018, Calloway County was in compliance with the terms of this agreement. The principal balance as of June 30, 2018, was \$131,925. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 41,667	\$ 6,372
2020	41,667	4,017
2021	41,667	1,663
2022	6,924	49
Totals	<u>\$ 131,925</u>	<u>\$ 12,101</u>

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

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

**E. Vehicles - Financing Obligation**

On August 5, 2017, Calloway County entered into a financing agreement with Republic Bank through Kentucky Association of Counties Leasing Trust to purchase an excavator in the amount of \$250,000. The terms of this agreement consist of 72 principal and interest payments due monthly beginning September 20, 2017, and ending August 20, 2022. As of June 30, 2018, Calloway County was in compliance with the terms of this agreement. The principal balance as of June 30, 2018, was \$147,862. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 34,014	\$ 4,301
2020	34,927	3,183
2021	35,863	2,033
2022	36,825	853
2023	6,233	25
Totals	<u>\$ 147,862</u>	<u>\$ 10,395</u>

**F. 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
Refunding Bonds	\$ 315,000	\$	\$ 315,000	\$	\$
Financing Obligations	403,292	175,308	282,607	295,993	91,887
Total Long-term Debt	<u>\$ 718,292</u>	<u>\$ 175,308</u>	<u>\$ 597,607</u>	<u>\$ 295,993</u>	<u>\$ 91,887</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 \$535,115, and FY 2017 was \$604,777, and FY 2018 was \$652,200.

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.

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

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

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.

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.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

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

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

Other Post-Employment Benefits (OPEB)

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. 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.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

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

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

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

**Note 7. Deferred Compensation**

On January 1, 1997, the Calloway 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 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 8. Health Reimbursement Account**

The Calloway County Fiscal Court participates in a back-end Health Reimbursement Account (HRA) program. Employees participating receive \$2,500 on a HRA card after meeting the annual deduction amount of their health insurance plan for the year. The county has contracted with a third-party administrator to administer the plan.

**Note 9. Insurance**

For the fiscal year ended June 30, 2018, the Calloway 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. Commitments and Contingencies**

The county is involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant, in the aggregate they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

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

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

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**CALLOWAY 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	\$ 2,584,400	\$ 2,584,400	\$ 3,650,150	\$ 1,065,750
In Lieu Tax Payments	122,000	122,000	106,403	(15,597)
Excess Fees	18,550	18,550	117,858	99,308
Licenses and Permits	50,100	50,100	51,677	1,577
Intergovernmental	709,700	709,700	408,091	(301,609)
Charges for Services	4,500	4,500	13,814	9,314
Miscellaneous	84,000	84,000	135,201	51,201
Interest	15,000	15,000	38,972	23,972
Total Receipts	<u>3,588,250</u>	<u>3,588,250</u>	<u>4,522,166</u>	<u>933,916</u>
<b>DISBURSEMENTS</b>				
General Government	2,487,653	2,375,116	1,881,121	493,995
Protection to Persons and Property	106,880	107,071	43,753	63,318
General Health and Sanitation	302,080	384,317	301,905	82,412
Social Services	46,000	46,568	27,728	18,840
Recreation and Culture	132,746	132,746	130,246	2,500
Capital Projects	376,000	528,008	446,386	81,622
Administration	691,899	569,432	348,477	220,955
Total Disbursements	<u>4,143,258</u>	<u>4,143,258</u>	<u>3,179,616</u>	<u>963,642</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(555,008)</u>	<u>(555,008)</u>	<u>1,342,550</u>	<u>1,897,558</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	<u>(2,351,698)</u>	<u>(2,351,698)</u>	<u>(2,300,000)</u>	<u>51,698</u>
Total Other Adjustments to Cash (Uses)	<u>(2,351,698)</u>	<u>(2,351,698)</u>	<u>(2,300,000)</u>	<u>51,698</u>
Net Change in Fund Balance	(2,906,706)	(2,906,706)	(957,450)	1,949,256
Fund Balance - Beginning	<u>2,906,706</u>	<u>2,906,706</u>	<u>5,211,718</u>	<u>2,305,012</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,254,268</u>	<u>\$ 4,254,268</u>

**CALLOWAY 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	\$ 1,843,670	\$ 1,843,670	\$ 1,945,085	\$ 101,415
Miscellaneous	96,000	96,000	123,143	27,143
Interest	1,000	1,000	460	(540)
Total Receipts	<u>1,940,670</u>	<u>1,940,670</u>	<u>2,068,688</u>	<u>128,018</u>
<b>DISBURSEMENTS</b>				
Roads	3,243,500	3,491,921	3,517,385	(25,464)
Debt Service	275,000	386,886	378,444	8,442
Capital Projects	276,768	2,784		2,784
Administration	597,100	510,777	452,169	58,608
Total Disbursements	<u>4,392,368</u>	<u>4,392,368</u>	<u>4,347,998</u>	<u>44,370</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,451,698)</u>	<u>(2,451,698)</u>	<u>(2,279,310)</u>	<u>172,388</u>
<b>Other Adjustments to Cash (Uses)</b>				
Borrowed Money			175,308	175,308
Transfers From Other Funds	<u>2,351,698</u>	<u>2,351,698</u>	<u>2,300,000</u>	<u>(51,698)</u>
Total Other Adjustments to Cash (Uses)	<u>2,351,698</u>	<u>2,351,698</u>	<u>2,475,308</u>	<u>123,610</u>
Net Change in Fund Balance	(100,000)	(100,000)	195,998	295,998
Fund Balance - Beginning	<u>100,000</u>	<u>100,000</u>	<u>191,189</u>	<u>91,189</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 387,187</u>	<u>\$ 387,187</u>

**CALLOWAY 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	\$ 1,215,900	\$ 1,215,900	\$ 1,181,525	\$ (34,375)
Charges for Services	141,000	141,000	172,131	31,131
Miscellaneous	96,500	96,500	166,007	69,507
Interest	200	200	241	41
Total Receipts	<u>1,453,600</u>	<u>1,453,600</u>	<u>1,519,904</u>	<u>66,304</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	2,065,481	2,146,429	1,864,331	282,098
Administration	738,825	657,877	583,255	74,622
Total Disbursements	<u>2,804,306</u>	<u>2,804,306</u>	<u>2,447,586</u>	<u>356,720</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,350,706)</u>	<u>(1,350,706)</u>	<u>(927,682)</u>	<u>423,024</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>1,250,000</u>	<u>1,250,000</u>	<u>850,000</u>	<u>(400,000)</u>
Total Other Adjustments to Cash (Uses)	<u>1,250,000</u>	<u>1,250,000</u>	<u>850,000</u>	<u>(400,000)</u>
Net Change in Fund Balance	(100,706)	(100,706)	(77,682)	23,024
Fund Balance - Beginning	<u>100,706</u>	<u>100,706</u>	<u>246,461</u>	<u>145,755</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 168,779</u>	<u>\$ 168,779</u>

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

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 12,000	\$ 12,000	\$ 2,921	\$ (9,079)
Total Receipts	<u>12,000</u>	<u>12,000</u>	<u>2,921</u>	<u>(9,079)</u>
<b>DISBURSEMENTS</b>				
Roads	12,000	12,000	2,921	9,079
Total Disbursements	<u>12,000</u>	<u>12,000</u>	<u>2,921</u>	<u>9,079</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

<b>JAIL GRANT FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Interest	\$ 15,000	\$ 15,000	\$ 15,730	\$ 730
Total Receipts	15,000	15,000	15,730	730
<b>DISBURSEMENTS</b>				
Capital Projects	1,422,000	1,422,000		1,422,000
Total Disbursements	1,422,000	1,422,000		1,422,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,407,000)	(1,407,000)	15,730	1,422,730
Net Change in Fund Balance	(1,407,000)	(1,407,000)	15,730	1,422,730
Fund Balance - Beginning	1,407,000	1,407,000	1,495,053	88,053
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,510,783	\$ 1,510,783

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

<b>JAIL CONSTRUCTION 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>				
Taxes	\$ 10,200	\$ 10,200	\$ 10,585	\$ 385
Interest	20,000	20,000	27,430	7,430
Total Receipts	<u>30,200</u>	<u>30,200</u>	<u>38,015</u>	<u>7,815</u>
<b>DISBURSEMENTS</b>				
Debt Service	100	100		100
Administration	<u>2,080,100</u>	<u>2,080,100</u>		<u>2,080,100</u>
Total Disbursements	<u>2,080,200</u>	<u>2,080,200</u>		<u>2,080,200</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,050,000)</u>	<u>(2,050,000)</u>	38,015	<u>2,088,015</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	<u>(1,250,000)</u>	<u>(1,250,000)</u>	(850,000)	400,000
Total Other Adjustments to Cash (Uses)	<u>(1,250,000)</u>	<u>(1,250,000)</u>	(850,000)	400,000
Net Change in Fund Balance	(3,300,000)	(3,300,000)	(811,985)	2,488,015
Fund Balance - Beginning	<u>3,300,000</u>	<u>3,300,000</u>	<u>3,005,501</u>	<u>(294,499)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,193,516</u>	<u>\$ 2,193,516</u>

**CALLOWAY 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. Excess of Disbursements Over Appropriations**

Road fund roads disbursements exceeded budgeted appropriations by \$25,464.

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

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

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**CALLOWAY 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 (Restated*)	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 348,227	\$	\$	\$ 348,227
Buildings	9,650,427			9,650,427
Vehicles*	1,127,625	221,695	82,166	1,267,154
Equipment	2,158,429			2,158,429
Infrastructure	5,376,022	596,319		5,972,341
 Total Capital Assets	 <u>\$ 18,660,730</u>	 <u>\$ 818,014</u>	 <u>\$ 82,166</u>	 <u>\$ 19,396,578</u>

**CALLOWAY 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	Capitalize Only	
Land Improvements	\$ 12,500	10-60 years
Building	\$ 25,000	10-75 years
Building Improvements	\$ 25,000	
Construction In Progress	Capitalize Only	
Machinery and Equipment	\$ 20,000	3-25 years
Vehicle	\$ 20,000	3-25 years
Infrastructure	\$ 20,000	10-50 years

**Note 2. Prior Period Adjustment**

The capital asset schedule has been adjusted for the following:

	<u>Vehicles</u>
Ending Balance Prior Year	\$ 1,148,625
Adjustments:	
Omission of Prior Year Deletions	<u>(21,000)</u>
Beginning Balance - Restated	<u>\$ 1,127,625</u>

**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 Elkins, Former Calloway County Judge/Executive  
The Honorable Kenneth C. Imes, Calloway County Judge/Executive  
Members of the Calloway 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 Calloway County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Calloway County Fiscal Court's financial statement and have issued our report thereon dated June 13, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Calloway 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 Calloway County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Calloway 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 2018-001, 2018-002, and 2018-003 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 Calloway 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2018-001.

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

Calloway 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,



Mike Harmon  
Auditor of Public Accounts

June 13, 2019



**CALLOWAY COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

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

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**CALLOWAY COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

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

FINANCIAL STATEMENT FINDINGS:

2018-001 Internal Control Deficiencies And Non-Compliances Exist Over The Collection Of Receipts At Off-Site Locations

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The Calloway County Fiscal Court has internal control deficiencies and non-compliances regarding the collection of receipts at off-site locations. The following findings were noted with the Calloway County Fiscal Court's collection of receipts at off-site locations:

- Receipts collected at the Road Department, Animal Shelter, and collections for Dexter Community Center are not turned over to the county treasurer to be deposited on a daily basis, as required by KRS 68.210.
- One slip of the triplicate receipts is not being turned over to the county treasurer with monies collected to be placed with the daily bank deposit by the Animal Shelter or the Dexter Community Center, as required by KRS 64.840. Therefore, the county treasurer cannot compare the amounts collected to supporting documentation to ensure all receipts are accounted for.
- A receipts ledger is not being maintained at the Animal Shelter or the Dexter Community Center.
- The Animal Shelter disposed of the office copies of receipts issued to customers for calendar year 2017.
- The Animal Shelter and the collectors for the Dexter Community Center do not always issue a triplicate receipt to customers for applicable transactions, as required by KRS 64.840.

Due to a lack of effective internal controls, receipts were left vulnerable to misappropriation and loss. Amounts due to the fiscal court could not be verified due to the lack of documentation. Also, the Calloway County Fiscal Court is in not in compliance with KRS 64.840 which requires the issuance of receipts for all funds collected by the county.

Strong internal controls over the collection of receipts are vital in ensuring that receipts are accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes. Additionally, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual states, "daily deposits intact into a federal insured banking institution."

According to KRS 64.840:

all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer, if the fine, forfeiture, tax, or fee is paid:

- (a) In cash;
- (b) By a party appearing in person to pay; or
- (c) By check, credit card, or debit card account received through the mail, if the party includes an addressed, postage-paid return envelope and a request for receipt.

(2) One (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit.

**CALLOWAY COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2018**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-001 Internal Control Deficiencies And Non-Compliances Exist Over The Collection Of Receipts At Off-Site Locations (Continued)

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We make the following recommendations to address these findings:

- All receipts collected at the Road Department, Animal Shelter, and collections for the Dexter Community Center should be turned over to the county treasurer daily to be deposited according to KRS 68.210.
- With the money collected, the Animal Shelter and collector for the Dexter Community Center should also turn over all receipts issued so the county treasurer can retain the receipts with the daily bank deposit according to KRS 64.840. Also, the county treasurer should compare the amount collected to the receipts issued and ensure all receipts have been accounted for.
- The Animal Shelter and collector for the Dexter Community Center should maintain a receipts ledger documenting all receipts collected. The receipts ledger should document the date of transaction, who the money was received from, the amount collected, and what the money was collected for.
- All records in regards to the county's receipts should be maintained.
- Pre-Numbered, triplicate receipts should be issued for all applicable transactions according to KRS 64.840.

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive's Response: We will comply by having departments turn in copies of receipts to Treasurer's office.*

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

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Material weaknesses exist over the reporting of capital assets of Calloway 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 beginning balance for capital assets required restatements because of errors involving prior year deletions. The fiscal court's ending balance of the schedule of capital assets for the period of audit was misstated by \$87,861. However, numerous misstatements were noted involving asset additions and deletions because the fiscal court did not properly update the capital asset list. Additions were misstated overall by \$83,653 because some additions were excluded from the county's capital asset schedule while some items that did not meet the threshold for capitalization had been included. Also, some assets were included on the schedule even though they are owned by another entity. Deletions were misstated overall by \$226,879 because prior year deletions had not been properly removed from the schedule and were instead shown as current year deletions.

It was also noted that two pieces of equipment that had been installed on two new dump trucks had not been added to the county's insurance policy.

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.

**CALLOWAY COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2018**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

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

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We recommend the fiscal court maintain a detailed inventory of capital assets. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired. 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: County will more diligent on keeping records of capital assets purchased and surplused.*

2018-003 The Calloway County Fiscal Court Lacked Adequate Segregation Of Duties Over The Collection Of Receipts

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The Calloway County Fiscal Court lacked adequate segregation of duties over the collection of receipts. The former assistant county treasurer collected receipts, prepared the deposit, and posted the receipts to the receipts ledger. There is no documentation that the former county treasurer or anyone else reviewed the collection and recording of receipts performed by the former assistant county treasurer.

Due to the lack of internal controls in place, the duties associated with the custody, recordkeeping, and authorization of receipts were not segregated, which increases the risk of undetected errors or fraud.

Segregation of duties or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the judge segregate the duties noted above by designating an individual independent of the cash receipts process to review the daily listing of receipts and compare it to the deposit slip. Documentation, such as the reviewer's initials or signature, should be provided on those items that are reviewed.

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive's Response: We do not agree with this finding. The county treasurer reviewed all receipts, ledgers and deposits. We will comply by Treasurer initialing all receipts and deposits.*

**Auditor's Reply:** While the former treasurer may have reviewed the former assistant county treasurer's postings and deposits, there was a single individual performing the duties.



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

**CALLOWAY COUNTY FISCAL COURT**

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

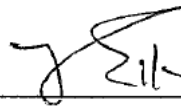
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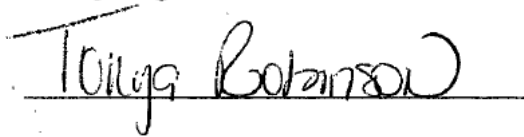
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
CALLOWAY COUNTY FISCAL COURT

For The Year Ended June 30, 2018

The Calloway 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