

**REPORT OF THE AUDIT OF THE
WEBSTER 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 Stephen R. Henry, Webster County Judge/Executive
Members of the Webster 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 Webster County Fiscal Court, for the year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the Webster 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 Webster 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 Webster County Fiscal Court as of June 30, 2019, 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 Webster 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 Webster County Fiscal Court. The Budgetary Comparison Schedules (supplementary information) and Schedule of Capital Assets (other information) are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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.

To the People of Kentucky
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2020, on our consideration of the Webster 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 Webster 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 discuss the following report findings:

- 2019-001 The Webster County Fiscal Court Had Inadequate Controls Over Disbursements And Was Not Compliant With Various Statutes
- 2019-002 The Webster County Jail Lacks Adequate Segregation Of Duties Over Jail Commissary And Inmate Accounts
- 2019-003 The Webster County Jail Lacks Adequate Internal Controls Over Online And Credit Card Payments
- 2019-004 Internal Control Deficiencies Exist Over The Reporting Of Liabilities And Debt

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

March 17, 2020

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

Stephen R. Henry	County Judge/Executive
Tony Felker	Magistrate
Chad Townsend	Magistrate
Jerry Brown	Magistrate

Other Elected Officials:

Clint Prow	County Attorney
Tery Elder	Jailer (July 2018 - December 2018)
Morgan McKinley	Jailer (January 2019 - June 2019)
Valerie Newall	County Clerk
Debbie Austin	Circuit Court Clerk
Frankie Springfield	Sheriff
Jeff Kelley	Property Valuation Administrator
Todd Vanover	Coroner

Appointed Personnel:

Tonia Duncan	County Treasurer
Leesa Russell	Chief Financial Officer

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

For The Year Ended June 30, 2019

WEBSTER 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	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 1,476,808	\$	\$	\$
In Lieu Tax Payments	13,065			
Excess Fees	5,885			
Licenses and Permits	11,704			2,600
Intergovernmental	1,276,813	1,568,998	2,852,406	736,970
Charges for Services	12,247		54,958	11,805
Miscellaneous	92,186	216,354	208,508	56,038
Interest	4,763	3,663	2,004	596
Total Receipts	<u>2,893,471</u>	<u>1,789,015</u>	<u>3,117,876</u>	<u>808,009</u>
DISBURSEMENTS				
General Government	1,940,720			126,637
Protection to Persons and Property	440,857		2,250,098	46,098
General Health and Sanitation	118,055			605,518
Social Services	7,425			151,512
Recreation and Culture				6,921
Roads		1,109,465		323
Debt Service			343,577	
Administration	276,486	232,607	506,760	
Total Disbursements	<u>2,783,543</u>	<u>1,342,072</u>	<u>3,100,435</u>	<u>937,009</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>109,928</u>	<u>446,943</u>	<u>17,441</u>	<u>(129,000)</u>
Net Change in Fund Balance	109,928	446,943	17,441	(129,000)
Fund Balance - Beginning (Restated)	<u>839,058</u>	<u>209,079</u>	<u>330,085</u>	<u>317,394</u>
Fund Balance - Ending	<u>\$ 948,986</u>	<u>\$ 656,022</u>	<u>\$ 347,526</u>	<u>\$ 188,394</u>
Composition of Fund Balance				
Bank Balance	\$ 1,129,383	\$ 803,679	\$ 537,442	\$ 279,601
Less: Outstanding Checks	<u>(180,397)</u>	<u>(147,657)</u>	<u>(189,916)</u>	<u>(91,207)</u>
Fund Balance - Ending	<u>\$ 948,986</u>	<u>\$ 656,022</u>	<u>\$ 347,526</u>	<u>\$ 188,394</u>

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

WEBSTER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2019
(Continued)

Budgeted Funds				Unbudgeted Funds		
State Grant Fund	Federal Grant Fund	Sanitation Fund	Animal Shelter Fund	Public Properties Corporation Fund	Jail Commissary Fund	Total Funds
\$	\$	\$	\$	\$	\$	\$ 1,476,808
						13,065
						5,885
						14,304
457,090	485,000			201,660		7,578,937
		206,585				285,595
1,969					359,039	934,094
96		120	85	252		11,579
<u>459,155</u>	<u>485,000</u>	<u>206,705</u>	<u>85</u>	<u>201,912</u>	<u>359,039</u>	<u>10,320,267</u>
66,086						2,133,443
						2,737,053
87,215		200,928				1,011,716
267,684	484,980					911,601
10,220					297,291	314,432
						1,109,788
				200,660		544,237
		14,559		1,000		1,031,412
<u>431,205</u>	<u>484,980</u>	<u>215,487</u>		<u>201,660</u>	<u>297,291</u>	<u>9,793,682</u>
27,950	20	(8,782)	85	252	61,748	526,585
27,950	20	(8,782)	85	252	61,748	526,585
8,967		23,208	34,009	20	42,747	1,804,567
<u>\$ 36,917</u>	<u>\$ 20</u>	<u>\$ 14,426</u>	<u>\$ 34,094</u>	<u>\$ 272</u>	<u>\$ 104,495</u>	<u>\$ 2,331,152</u>
\$ 36,917	\$ 20	\$ 26,560	\$ 34,094	\$ 272	\$ 105,838	\$ 2,953,806
		(12,134)			(1,343)	(622,654)
<u>\$ 36,917</u>	<u>\$ 20</u>	<u>\$ 14,426</u>	<u>\$ 34,094</u>	<u>\$ 272</u>	<u>\$ 104,495</u>	<u>\$ 2,331,152</u>

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

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TO THE FINANCIAL STATEMENT**

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WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2019

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

WEBSTER 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)

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.

State Grant Fund - The primary purpose of this fund is to account for various grants received from the state government.

Federal Grant Fund - The primary purpose of this fund is to account for various grants received from the federal government.

Sanitation Fund - The primary purpose of this fund is to account for sanitation revenues and related expenditures. The primary source of receipts for this fund is charges for services

Animal Shelter Fund - The primary purpose of this fund is to account for funds received to pay for animal shelter expenses. The primary sources of receipts for this fund is interest and donations.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings. The Department for Local Government does not require the fiscal court to budget these 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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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.

E. Webster County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Webster 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 Webster 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.

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

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, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. 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 funds:

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 \$62,299.

Health Reimbursement Fund - This fund accounts for county contributions to individual health accounts maintained for each employee. The balance of the health reimbursement fund as of June 30, 2019, was \$93,127.

Note 4. Long-term Debt

A. Direct Borrowings and Direct Placements

1. Webster County Detention Center Expansion Series 2010A

On December 16, 2010, the Webster County Fiscal Court entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KaCOLT) in the amount of \$5,335,000. Monthly principal and interest payments are due beginning January 1, 2011. On September 19 2017, a portion of the lease was refinanced leaving a balance of \$440,000 on this series. The final installment is due on January 1, 2020. The effective interest rate is 2.94%. The purpose of the agreement was to refund a portion of the outstanding lease agreement by and between the Kentucky Association of Counties Finance Corporation and the County of Webster, Kentucky, dated December 16, 2010, the proceeds of which were used to refinance a lease dated February 14, 2008, that was used to finance the construction, acquisition, and equipping of an expansion to the current Webster County detention facility. In order to secure all obligations noted in the lease, Webster County granted the Kentucky Association of Counties Finance Corporation a first and prior security interest in any and all right, title, and interest of Webster County in the portions of the project that constitute personal property and in all additions, attachments, accessions, and substitutions thereto, and on any proceeds therefrom.

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

Note 4. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

1. Webster County Detention Center Expansion Series 2010A (Continued)

Webster County shall immediately surrender possession of the project to the Kentucky Association of Counties Finance Corporation upon the occurrence of an event of default. Principal outstanding as of June 30, 2019, totaled \$90,417. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 90,417	\$ 4,506
Totals	\$ 90,417	\$ 4,506

2. Webster County Detention Center Expansion Series 2017C

On September 19, 2017, the Webster County Fiscal Court entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KaCOLT) in the amount of \$4,370,000. Monthly principal and interest payments are due beginning October 1, 2017. The final installment is due on January 1, 2037. The effective interest rate is 2.94%. The purpose of the agreement is to refund a portion of the outstanding lease agreement by and between the Kentucky Association of Counties Finance Corporation and the County of Webster, Kentucky, dated December 16, 2010, the proceeds of which were used to refinance a lease dated February 14, 2008, that was used to finance the construction, acquisition, and equipping of an expansion to the current Webster County detention facility. In order to secure all obligations noted in the lease, Webster County granted the Kentucky Association of Counties Finance Corporation a first and prior security interest in any and all right, title, and interest of Webster County in the portions of the project that constitute personal property and in all additions, attachments, accessions, and substitutions thereto, and on any proceeds therefrom. Webster County shall immediately surrender possession of the project to the Kentucky Association of Counties Finance Corporation upon the occurrence of an event of default. Principal outstanding as of June 30, 2019, totaled \$4,323,750. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 81,667	\$ 167,242
2021	179,167	163,042
2022	189,167	153,635
2023	197,083	143,704
2024	206,250	133,357
2025-2029	1,205,833	503,722
2030-2034	1,428,750	286,293
2035-2037	835,833	50,551
Totals	\$ 4,323,750	\$ 1,601,546

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

Note 4. Long-term Debt (Continued)

B. Other Debt

1. First Mortgage Refunding Revenue Bonds (Judicial Center Project), Series 2011

On May 5, 2011, the Webster County, Kentucky, Public Properties Corporation (Corporation) issued First Mortgage Refunding Revenue Bonds, Series 2011 to refund First Mortgage Revenue Bonds (Judicial Center Project), Series 2002. The total bond issue was \$1,515,000, with interest rates from 4.00 percent to 4.5 percent. Interest is payable on February 1 and August 1 of each year. As of June 2019, bonds outstanding were \$1,215,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 155,000	\$ 46,310
2021	165,000	41,405
2022	165,000	36,060
2023	175,000	29,873
2024	175,000	23,310
2025-2026	<u>380,000</u>	<u>24,150</u>
Totals	<u>\$ 1,215,000</u>	<u>\$ 201,108</u>

C. Changes In Long-term Debt

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

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowing and Direct Placements *	\$ 4,578,334	\$	\$ 164,167	\$ 4,414,167	\$ 172,084
Revenue Bonds	<u>1,365,000</u>		<u>150,000</u>	<u>1,215,000</u>	<u>155,000</u>
Total Long-term Debt	<u>\$ 5,943,334</u>	<u>\$</u>	<u>\$ 314,167</u>	<u>\$ 5,629,167</u>	<u>\$ 327,084</u>

* Beginning Balance was restated by \$288,750 due to Jail Expansion Series 2017C not being included in the prior year audit.

Note 5. Conduit Debt

From time to time the county has issued bonds to provide financial assistance for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Webster County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement.

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

Note 6. Commitment Debt

Webster County, in conjunction with Henderson, Union, and McLean Counties issued an ordinance which guarantees a portion of the \$450,000, zero-interest rural development loan to Kenergy from the West Kentucky Regional Industrial Development Authority to assist in promoting development of the 4 Star Industrial Park. Webster County authorized a guarantee of \$150,000. Henderson County also guaranteed \$150,000 and Union and McLean Counties each guaranteed \$75,000.

Note 7. 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 \$607,200, FY 2018 was \$592,179, and FY 2019 was \$613,293.

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.

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:

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

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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

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

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

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

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

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

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

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

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

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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

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

E. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

Note 8. Deferred Compensation

The Webster 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 40601-8862, or by telephone at (502) 573-7925.

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

Note 9. Health Reimbursement Account

The Webster County Fiscal Court, established a health reimbursement account on May 1, 2012, to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing \$2,250 each year to pay for qualified medical expenses. The balance of the plan is \$93,127.

Note 10. Insurance

For the fiscal year ended June 30, 2019, the Webster County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Tax Abatement

The property tax was abated under the authority of Webster County Fiscal Court. Tyson Foods is eligible to receive this tax abatement due to the purpose of the business bringing incentives to the citizens of the county, pursuant to KRS 65.7041. The taxes are abated by the county enabling Tyson Foods to start paying taxes from year one, on a pro-rated basis, and further allow Tyson Foods to amend the bond issue from \$14 million dollars to \$17 million dollars. For fiscal year ended June 30, 2019, the Webster County Fiscal Court abated property taxes totaling \$9,862.

Note 12. Contingencies

The county is involved in multiple lawsuits. 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.

Note 13. Prior Period Adjustments

	General Fund	Jail Fund	State Grant Fund	Public Properties Corporation Fund
Ending Cash Balance Prior Year	\$ 838,698	\$ 297,485	\$ 8,966	\$ 1,094
Adjustments:				
Prior Year Voided Checks	360	32,600		
Prior Year Adjustment				(1,074)
Rounding			1	
Beginning Fund Balance - Restated	<u>\$ 839,058</u>	<u>\$ 330,085</u>	<u>\$ 8,967</u>	<u>\$ 20</u>

WEBSTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

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WEBSTER 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	\$ 1,342,700	\$ 1,342,700	\$ 1,476,808	\$ 134,108
In Lieu Tax Payments	11,477	11,477	13,065	1,588
Excess Fees			5,885	5,885
Licenses and Permits	10,557	10,557	11,704	1,147
Intergovernmental	1,190,797	1,190,797	1,276,813	86,016
Charges for Services	12,264	12,264	12,247	(17)
Miscellaneous	94,554	94,554	92,186	(2,368)
Interest	3,223	3,223	4,763	1,540
Total Receipts	<u>2,665,572</u>	<u>2,665,572</u>	<u>2,893,471</u>	<u>227,899</u>
DISBURSEMENTS				
General Government	2,098,947	2,119,598	1,940,720	178,878
Protection to Persons and Property	493,028	498,956	440,857	58,099
General Health and Sanitation	150,319	166,919	118,055	48,864
Social Services	8,600	8,705	7,425	1,280
Recreation and Culture	1,200	1,200		1,200
Capital Projects	40,000	31,400		31,400
Administration	272,849	358,826	276,486	82,340
Total Disbursements	<u>3,064,943</u>	<u>3,185,604</u>	<u>2,783,543</u>	<u>402,061</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(399,371)</u>	<u>(520,032)</u>	<u>109,928</u>	<u>629,960</u>
Net Change in Fund Balance	(399,371)	(520,032)	109,928	629,960
Fund Balance - Beginning (Restated)	<u>399,371</u>	<u>520,032</u>	<u>839,058</u>	<u>319,026</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 948,986</u>	<u>\$ 948,986</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,433,906	\$ 1,433,906	\$ 1,568,998	\$ 135,092
Miscellaneous	105,050	105,050	216,354	111,304
Interest	3,517	3,517	3,663	146
Total Receipts	<u>1,542,473</u>	<u>1,542,473</u>	<u>1,789,015</u>	<u>246,542</u>
DISBURSEMENTS				
Roads	1,344,593	1,346,793	1,109,465	237,328
Administration	309,356	307,156	232,607	74,549
Total Disbursements	<u>1,653,949</u>	<u>1,653,949</u>	<u>1,342,072</u>	<u>311,877</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(111,476)</u>	<u>(111,476)</u>	446,943	558,419
Net Change in Fund Balance	(111,476)	(111,476)	446,943	558,419
Fund Balance - Beginning	<u>111,476</u>	<u>111,476</u>	<u>209,079</u>	<u>97,603</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 656,022</u>	<u>\$ 656,022</u>

WEBSTER 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	\$ 2,705,597	\$ 2,705,597	\$ 2,852,406	\$ 146,809
Charges for Services	45,486	45,486	54,958	9,472
Miscellaneous	183,064	183,064	208,508	25,444
Interest	1,574	1,574	2,004	430
Total Receipts	<u>2,935,721</u>	<u>2,935,721</u>	<u>3,117,876</u>	<u>182,155</u>
DISBURSEMENTS				
Protection to Persons and Property	2,171,502	2,269,102	2,250,098	19,004
Debt Service	331,578	343,578	343,577	1
Administration	592,948	523,348	506,760	16,588
Total Disbursements	<u>3,096,028</u>	<u>3,136,028</u>	<u>3,100,435</u>	<u>35,593</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(160,307)</u>	<u>(200,307)</u>	17,441	<u>217,748</u>
Net Change in Fund Balance	(160,307)	(200,307)	17,441	217,748
Fund Balance - Beginning (Restated)	<u>160,307</u>	<u>160,307</u>	<u>330,085</u>	<u>169,778</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (40,000)</u>	<u>\$ 347,526</u>	<u>\$ 387,526</u>

WEBSTER 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	\$ 1,051	\$ 1,051	\$ 2,600	\$ 1,549
Intergovernmental	723,128	993,128	736,970	(256,158)
Charges for Services			11,805	11,805
Miscellaneous	58,931	58,931	56,038	(2,893)
Interest	1,797	1,797	596	(1,201)
Total Receipts	<u>784,907</u>	<u>1,054,907</u>	<u>808,009</u>	<u>(246,898)</u>
DISBURSEMENTS				
General Government	123,186	127,086	126,637	449
Protection to Persons and Property	71,136	69,536	46,098	23,438
General Health and Sanitation	477,131	754,381	605,518	148,863
Social Services	154,222	162,772	151,512	11,260
Recreation and Culture	6,800	8,700	6,921	1,779
Roads	1,000	1,000	323	677
Airports	2,400	2,400		2,400
Administration	20,000			
Total Disbursements	<u>855,875</u>	<u>1,125,875</u>	<u>937,009</u>	<u>188,866</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(70,968)</u>	<u>(70,968)</u>	<u>(129,000)</u>	<u>(58,032)</u>
Net Change in Fund Balance	(70,968)	(70,968)	(129,000)	(58,032)
Fund Balance - Beginning	<u>70,968</u>	<u>70,968</u>	<u>317,394</u>	<u>246,426</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 188,394</u>	<u>\$ 188,394</u>

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

	STATE GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 603,355	\$ 728,355	\$ 457,090	\$ (271,265)
Miscellaneous			1,969	1,969
Interest			96	96
Total Receipts	<u>603,355</u>	<u>728,355</u>	<u>459,155</u>	<u>(269,200)</u>
DISBURSEMENTS				
General Government	70,000	149,700	66,086	83,614
Protection to Persons and Property	90,000	10,000		10,000
General Health and Sanitation	50,676	125,676	87,215	38,461
Social Services	392,679	392,679	267,684	124,995
Recreation and Culture		10,300	10,220	80
Total Disbursements	<u>603,355</u>	<u>688,355</u>	<u>431,205</u>	<u>257,150</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>40,000</u>	<u>27,950</u>	<u>(12,050)</u>
Net Change in Fund Balance		40,000	27,950	(12,050)
Fund Balance - Beginning (Restated)			8,967	8,967
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 40,000</u>	<u>\$ 36,917</u>	<u>\$ (3,083)</u>

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

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 500,000	\$ 500,000	\$ 485,000	\$ (15,000)
Total Receipts	<u>500,000</u>	<u>500,000</u>	<u>485,000</u>	<u>(15,000)</u>
DISBURSEMENTS				
Social Services	500,000	500,000	484,980	15,020
Total Disbursements	<u>500,000</u>	<u>500,000</u>	<u>484,980</u>	<u>15,020</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>20</u>	<u>20</u>
Net Change in Fund Balance			20	20
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20</u>	<u>\$ 20</u>

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

	SANITATION FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 206,667	\$ 206,667	\$ 206,585	\$ (82)
Interest	154	154	120	(34)
Total Receipts	<u>206,821</u>	<u>206,821</u>	<u>206,705</u>	<u>(116)</u>
DISBURSEMENTS				
General Health and Sanitation	197,591	202,141	200,928	1,213
Administration	15,555	21,005	14,559	6,446
Total Disbursements	<u>213,146</u>	<u>223,146</u>	<u>215,487</u>	<u>7,659</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(6,325)</u>	<u>(16,325)</u>	<u>(8,782)</u>	<u>7,543</u>
Net Change in Fund Balance	(6,325)	(16,325)	(8,782)	7,543
Fund Balance - Beginning	6,325	16,325	23,208	6,883
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,426</u>	<u>\$ 14,426</u>

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

	ANIMAL SHELTER FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$	85	\$ 85	\$
Total Receipts		85	85	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		85	85	
Net Change in Fund Balance		85	85	
Fund Balance - Beginning		34,009	34,009	
Fund Balance - Ending	\$	0	\$ 34,094	\$ 0

WEBSTER 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.

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

For The Year Ended June 30, 2019

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WEBSTER 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 (Restated)	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 767,992	\$	\$	\$ 767,992
Construction In Progress	42,430	675,570		718,000
Buildings*	13,739,707			13,739,707
Vehicles & Equipment	3,078,660	9,000		3,087,660
Other Equipment	3,596,786	54,865		3,651,651
Infrastructure	18,432,688			18,432,688
 Total Capital Assets	 <u>\$ 39,658,263</u>	 <u>\$ 739,435</u>	 <u>\$ 0</u>	 <u>\$ 40,397,698</u>

WEBSTER 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	\$ 5,000	10-60
Buildings	\$ 5,000	10-75
Vehicles and Equipment	\$ 5,000	3-25
Other Equipment	\$ 5,000	3-25
Infrastructure	\$ 5,000	10-50

Note 2. Restatement of Beginning Balance

The beginning balance for buildings was restated by \$43,225 to correct errors in prior year building additions.

**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 Stephen R. Henry, Webster County Judge/Executive
Members of the Webster 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 Webster County Fiscal Court for the fiscal year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the Webster County Fiscal Court's financial statement and have issued our report thereon dated March 17, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Webster 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 Webster County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Webster 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 and another deficiency that we consider to be a significant deficiency.

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, 2019-002, and 2019-003 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)

Internal Control Over Financial Reporting

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2019-004 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Webster 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 matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2019-001.

Views of Responsible Officials and Planned Corrective Action

Webster 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

March 17, 2020

**WEBSTER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

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**WEBSTER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 The Webster County Fiscal Court Had Inadequate Controls Over Disbursements And Was Not Compliant With Various Statutes

The following issues were noted when testing disbursements:

- One instance where an invoice was not itemized sufficiently to adequately support the disbursement.
- One instance where finance charges, such as late fees, were paid on a disbursement.
- Thirteen instances where invoices were not maintained to support the purchase. Twelve of these instances were for disbursements made by county credit cards.
- One instance where a check written for a disbursement did not have dual signatures.
- Three instances where disbursements were not presented to fiscal court prior to payment.
- Thirteen instances where disbursements exceeded budgeted appropriations totaling \$299,415.

We also identified two instances where the fiscal court was not verifying that they were receiving specified bid rates on road materials. In addition, we also identified one instance in which a disbursement in the amount of \$89,768 was not bid out as required by KRS 424.260.

Due to the fiscal court failing to establish appropriate internal controls over disbursements, numerous instances of noncompliance were noted and reflected above. These control deficiencies could also result in line items being over budget, claims being paid not related to the fiscal court, inaccurate reporting, and misappropriation of assets.

KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for counties' handling of public funds, including required purchasing procedures for counties. These requirements prescribe that appropriate supporting documentation is maintained for all operating disbursements. While, KRS 68.275(2) states, "[t]he county judge/executive shall present all claims to the fiscal court for review prior to payment[.]" Good controls over disbursements are necessary to ensure proper reporting and ensure the county is conducting business that is compliant with required statutes.

Per KRS 68.300, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable."

Also, KRS 424.260(1) states, "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids."

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-001 The Webster County Fiscal Court Had Inadequate Controls Over Disbursements And Was Not Compliant With Various Statutes (Continued)

We recommend the Webster County Fiscal Court improve procedures over disbursements by ensuring that sufficient supporting documentation is provided for all disbursements, and that checks written for disbursements require dual signatures and are properly endorsed by the payee. We also recommend that disbursements are reviewed for unallowable charges such as late fees before their approval and payment. We further recommend that the fiscal court ensure that purchase requests are not approved in an amount that exceeds the available line item appropriation without the appropriate transfers being made and that KRS 424.260 is followed.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response:

1. *The Fiscal Court will work with vendors to ensure itemized invoices.*
2. *Because the court does not pay claims until the approval of the Fiscal Court all bills are paid then and paid within the due date unless those court dates cause the due dates to pass. The court will work with vendors to ensure payments are made within the due date based upon on Fiscal Court meeting dates.*
3. *Instances noted were approved purchases that services provided by internet services that were recurring monthly services. No instances referenced were un-allowed purchases. The Fiscal Court will continue to work with vendors to ensure detailed invoices for purchases.*
4. *The court will continue to work to ensure signatures are on disbursement checks.*
5. *The court will work to ensure that checks are not dispersed before being voted upon. Each instance noted, were paid to the contractor on the Senior Center. Those funds are sent through DLG and have a 5 day window to be paid.*
6. *Budget Transfers will be done in a timely manner to prevent the appropriation line item to not exceed to budget amount.*

2019-002 The Webster County Jail Lacks Adequate Segregation Of Duties Over The Jail Commissary And Inmate Accounts

The Webster County Jail lacks adequate segregation of duties over the jail commissary and inmate accounts. The jail bookkeeper prepares deposits, prepares daily checkout sheets, and posts to the receipts ledgers. The bookkeeper also prepares monthly collection and disbursement reports, writes and signs checks, posts to the disbursements ledger, and prepares the monthly bank reconciliations. Compensating controls such as the review of daily checkout sheets by the jailer and the requirement of dual signatures on all checks were noted, but were not deemed adequate enough to offset this control deficiency.

A lack of segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government. In addition, too much control by one individual without oversight can lead to undetected irregularities. Segregation of duties over these functions, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Webster County Jail Lacks Adequate Segregation Of Duties Over The Jail Commissary And Inmate Accounts (Continued)

Due to the small size of staff and limited resources, the Webster County Jail has limited options for establishing segregation of duties.

We recommend the Webster County Jail segregate duties to the extent possible. If proper segregation of duties is not possible due to budget constraints, we recommend that the Webster County Jail implement compensating controls over jail canteen and inmate accounts.

Views of Responsible Official and Planned Corrective Action:

Jailer's Response: The Jailer, Chief Deputy, Programs Director, and Finance Officer will all assist in the segregation of duties over the Jail Canteen & Inmate Account. Meaning someone other than the Finance Officer will approve all items pertaining to the Jail Canteen & Inmate Account. This change will take place immediately.

2019-003 The Webster County Jail Lacks Adequate Internal Controls Over Online And Credit Card Payments

The Webster County Jail contracts with a third-party commissary company to handle online payments to inmates' accounts. This third party company also handles any credit or debit card payments made to the kiosks located within the jail. During fiscal year 2019, funds in the amount of \$293,022 were handled and processed by this third party company. This commissary company receives payments, makes direct deposits to the inmate account, posts transactions to the inmates' accounts, and posts to the ledgers. The jail bookkeeper does not receive any information or documentation of these activities, and does not oversee any of these activities to ensure their accuracy.

According to the bookkeeper, they were not aware that any further controls needed to be implemented over the activities handled by the third party company. A lack of adequate internal controls increases the risk that undetected fraud or errors could occur. Because the jailer is responsible for the inmates of the county, it is imperative for the jailer to provide sufficient oversight of all accounts associated with the inmates, including the inmate fund.

We recommend that the Webster County Jailer implement internal controls over the processes that are handled by this third party company.

Views of Responsible Official and Planned Corrective Action:

Jailer's Response: I, jail bookkeeper started a binder dating back to July 1, 2019 with all credit card deposit reports. I am now pulling daily credit card reports to verify that all credit card deposits are accurate according to what is direct deposited into the bank and into each inmates account. I will continue to review all daily credit card deposits and enter them into Jail Tracker as I have in the past.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-004 Internal Control Deficiencies Exist Over The Reporting Of Liabilities And Debt

Internal control deficiencies exist over the reporting of liabilities and debt of Webster County. Outstanding debt as of June 30, 2019, reported on the Fourth Quarter Financial Report was \$232,632 less than outstanding debt per debt schedules.

Due to a lack of oversight, the amount of outstanding debt reported on the Fourth Quarter Financial Report was incorrect and does not agree with outstanding debt on the debt schedules. Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting.

We recommend the Webster County Fiscal Court strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the county consult with lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that the proper amounts are reported.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: I, Treasurer will strengthen the internal controls and will compare the payments made with Accounts Receivable Officer – Financial Services at KACO in June.

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

WEBSTER COUNTY FISCAL COURT

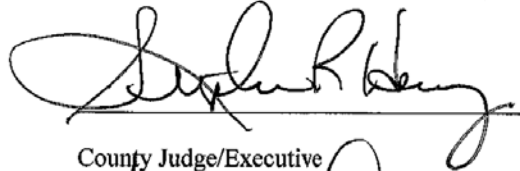
For The Year Ended June 30, 2019

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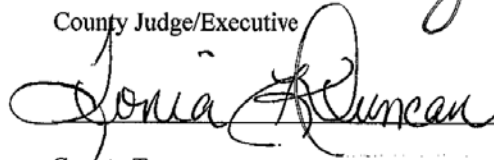
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
COUNTY FISCAL COURT

For The Year Ended June 30, 2019

The Webster 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