

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

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



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

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

EXECUTIVE SUMMARY
AUDIT OF THE
CALDWELL COUNTY FISCAL COURT

June 30, 2015

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

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

Financial Condition:

The Caldwell County Fiscal Court had total receipts of \$5,987,693 and disbursements of \$5,715,461 in fiscal year 2015. This resulted in a total ending fund balance of \$877,162, which is an increase of \$259,188 from the prior year.

Report Comments:

- 2015-001 The Fiscal Court Failed To Keep Required Accounting Records For Occupational And Net Profit Taxes
- 2015-002 The Jailer Failed To Properly Document Assets Or Declare Assets As Surplus Property
- 2015-003 The Fiscal Court Failed To Properly Document Required Supporting Payroll Information
- 2015-004 The Jail Lacks Adequate Segregation Of Duties Over The Accounting Functions And Has Insufficient Internal Controls
- 2015-005 The Jailer Did Not Require Daily Deposits, Issue Receipts For All Funds Collected, Require Disbursements Be Made By Check, Remit Inmate Fees To The Treasurer Timely, Or Create A System For Collection Of Inmate Accounts Receivable
- 2015-006 The Fiscal Court Failed To Record Or Approve A Salary Schedule

Deposits:

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

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT.....1
CALDWELL COUNTY OFFICIALS5
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS7
NOTES TO FINANCIAL STATEMENT10
BUDGETARY COMPARISON SCHEDULES23
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES29
SCHEDULE OF CAPITAL ASSETS33
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS34
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*37
COMMENTS AND RECOMMENDATIONS.....41
APPENDIX A:
 CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Ellen Dunning, Caldwell County Judge/Executive
Members of the Caldwell County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Caldwell County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Caldwell County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Ellen Dunning, Caldwell County Judge/Executive
Members of the Caldwell County Fiscal Court

Auditor's Responsibility (Continued)

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

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

As described more fully in Note 1 of the financial statement, the financial statement is prepared by the Caldwell County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Caldwell County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

Caldwell County's Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis, includes the receipts of occupational and net profit taxes in the general fund, which did not have adequate supporting accounting records. Since the occupational and net profit tax accounting records were not adequate, the financial information presented for the receipts of the Caldwell County General Fund cannot be determined to be reasonably accurate.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matters discussed in the "Basis for Qualified Opinion on Regulatory Basis of Accounting" paragraph, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Caldwell County Fiscal Court as of June 30, 2015, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Emphasis of Matters

As discussed in Note 11 to the financial statements, in August 2015, the Caldwell County Fiscal Court entered into a memorandum of understanding with the Caldwell County EMS, Inc., by which the EMS desired to dissolve and the fiscal court desired to maintain ambulance service in Caldwell County. This represents an additional cost burden in ambulance expenses. Our opinion is not modified with respect to this matter.

To the People of Kentucky
 Honorable Matthew G. Bevin, Governor
 William M. Landrum III, Secretary
 Finance and Administration Cabinet
 Honorable Ellen Dunning, Caldwell County Judge/Executive
 Members of the Caldwell County Fiscal Court

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Caldwell County Fiscal Court. The budgetary comparison schedules 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2016 on our consideration of the Caldwell County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Caldwell County Fiscal Court's internal control over financial reporting and compliance.

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

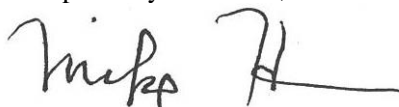
- 2015-001 The Fiscal Court Failed To Keep Required Accounting Records For Occupational And Net Profit Taxes
- 2015-002 The Jailer Failed To Properly Document Assets Or Declare Assets As Surplus Property
- 2015-003 The Fiscal Court Failed To Properly Document Required Supporting Payroll Information
- 2015-004 The Jail Lacks Adequate Segregation Of Duties Over The Accounting Functions And Has Insufficient Internal Controls

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Ellen Dunning, Caldwell County Judge/Executive
Members of the Caldwell County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

- 2015-005 The Jailer Did Not Require Daily Deposits, Issue Receipts For All Funds Collected, Require Disbursements Be Made By Check, Remit Inmate Fees To The Treasurer Timely, Or Create A System For Collection Of Inmate Accounts Receivable
- 2015-006 The Fiscal Court Failed To Record Or Approve A Salary Schedule

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

June 27, 2016

CALDWELL COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

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

Other Elected Officials:

James "Bridgie" Miller	County Attorney
Jon Pettit	Jailer
Toni Watson	County Clerk
Danny Hooks	Circuit Court Clerk
Stan Hudson	Sheriff
Ronald Wood	Property Valuation Administrator
Dwayne Trafford	Coroner

Appointed Personnel:

Glenda Harper	County Treasurer
Janie Kirk	Occupational Tax Collector
Darryl Seymore	Finance Officer
Wendall Lane	Road Supervisor
Clay Hughes	911 Administrator
Sandy Trusty	Jail Administrative Assistant

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

For The Year Ended June 30, 2015

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

For The Year Ended June 30, 2015

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 2,545,775	\$	\$
In Lieu Tax Payments	64,545		
Excess Fees	57,206		
Licenses and Permits	10,261		
Intergovernmental	401,044	1,734,674	208,525
Charges for Services	20,000		74,537
Miscellaneous	164,414	3,116	5,461
Interest	39	292	56
Total Receipts	<u>3,263,284</u>	<u>1,738,082</u>	<u>288,579</u>
DISBURSEMENTS			
General Government	1,237,060		
Protection to Persons and Property	318,179		500,807
General Health and Sanitation	43,300		
Social Services	6,272		
Recreation and Culture	377,991		
Roads		1,315,846	
Debt Service	153,573		
Administration	586,461	202,338	171,552
Total Disbursements	<u>2,722,836</u>	<u>1,518,184</u>	<u>672,359</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>540,448</u>	<u>219,898</u>	<u>(383,780)</u>
Other Adjustments to Cash (Uses)			
Payroll Revolving Account	(13,044)		
Transfers From Other Funds	668,359	435,000	450,000
Transfers To Other Funds	(1,076,758)	(639,285)	
Total Other Adjustments to Cash (Uses)	<u>(421,443)</u>	<u>(204,285)</u>	<u>450,000</u>
Net Change in Fund Balance	119,005	15,613	66,220
Fund Balance - Beginning (Restated)	76,382	468,379	8,917
Fund Balance - Ending	<u>\$ 195,387</u>	<u>\$ 483,992</u>	<u>\$ 75,137</u>
Composition of Fund Balance			
Bank Balance	\$ 243,237	\$ 399,044	\$ 75,137
Less: Outstanding Checks	(47,850)	(15,052)	
Certificates of Deposit		100,000	
Fund Balance - Ending	<u>\$ 195,387</u>	<u>\$ 483,992</u>	<u>\$ 75,137</u>

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

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

Local Government Economic Assistance Fund	Budgeted Funds		Unbudgeted Funds		Total Funds
	Grant Fund	Ambulance Fund	General Obligation Bond Fund	Jail Commissary Fund	
\$	\$	\$	\$	\$	\$ 2,545,775
					64,545
					57,206
30,580					40,841
265,709	28,282	9,673	266,865		2,914,772
3,360				86,106	184,003
7,063					180,054
105				5	497
<u>306,817</u>	<u>28,282</u>	<u>9,673</u>	<u>266,865</u>	<u>86,111</u>	<u>5,987,693</u>
34,082					1,271,142
	34,821	176,758			1,030,565
120,808					164,108
1,883				78,634	86,789
					377,991
40,166					1,356,012
			259,510		413,083
55,395		25			1,015,771
<u>252,334</u>	<u>34,821</u>	<u>176,783</u>	<u>259,510</u>	<u>78,634</u>	<u>5,715,461</u>
54,483	(6,539)	(167,110)	7,355	7,477	272,232
					(13,044)
50,000	35,000	176,758			1,815,117
(50,000)	(37,782)	(11,292)			(1,815,117)
	(2,782)	165,466			(13,044)
54,483	(9,321)	(1,644)	7,355	7,477	259,188
16,500	9,331	1,644		36,821	617,974
<u>\$ 70,983</u>	<u>\$ 10</u>	<u>\$ 0</u>	<u>\$ 7,355</u>	<u>\$ 44,298</u>	<u>\$ 877,162</u>
\$ 70,983	\$ 10	\$ 0	\$ 7,355	\$ 44,435	\$ 840,201
				(137)	(63,039)
					100,000
<u>\$ 70,983</u>	<u>\$ 10</u>	<u>\$ 0</u>	<u>\$ 7,355</u>	<u>\$ 44,298</u>	<u>\$ 877,162</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	10
NOTE 2.	DEPOSITS.....	13
NOTE 3.	TRANSFERS	13
NOTE 4.	AGENCY TRUST FUNDS.....	14
NOTE 5.	LONG-TERM DEBT	14
NOTE 6.	COMMITMENTS AND CONTINGENCIES	15
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM.....	15
NOTE 8.	DEFERRED COMPENSATION	18
NOTE 9.	HEALTH REIMBURSEMENT ACCOUNT/FLEXIBLE SPENDING ACCOUNT	18
NOTE 10.	INSURANCE	18
NOTE 11.	SUBSEQUENT EVENTS.....	18
NOTE 12.	RELATED PARTY TRANSACTIONS.....	19
NOTE 13.	PAYROLL REVOLVING ACCOUNT	19
NOTE 14.	PRIOR PERIOD ADJUSTMENTS.....	19

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Caldwell County includes all budgeted and unbudgeted funds under the control of the Caldwell County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

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

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

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

General Obligation Bond Fund - The purpose of this fund is to account for debt service requirements of the general obligation refunding bonds, Series 2010. The Department for Local Government does not require the fiscal court to report or budget this fund.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer 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 Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

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

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(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 general obligation bond to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Caldwell County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Caldwell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Caldwell County Fiscal Court.

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

F. Deposits and Investments

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

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

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

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(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 county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Road Fund	LGEA Fund	Grant Fund	Ambulance	Total Transfers In
General Fund	\$	\$ 604,285	\$ 50,000	\$ 2,782	\$ 11,292	\$ 668,359
Road Fund	400,000			35,000		435,000
Jail Fund	450,000					450,000
LGEA Fund	50,000					50,000
Grant Fund		35,000				35,000
Ambulance	176,758					176,758
Total Transfers Out	<u>\$ 1,076,758</u>	<u>\$ 639,285</u>	<u>\$ 50,000</u>	<u>\$ 37,782</u>	<u>\$ 11,292</u>	<u>\$ 1,815,117</u>

Reason for transfers:

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

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

Note 4. Agency Trust Fund

Trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The fiscal court has the following agency trust fund:

FSA/HRA Fund - This fund accounts for employee and employer contributions to reimburse employees for health care expenses.

Note 5. Long-term Debt

A. General Obligations Refunding Bonds, Series 2010

The Caldwell County Fiscal Court issued General Obligation Refunding Bonds, series 2010 bonds in the amount of \$1,550,000 for the purpose of refunding Series 1999 bonds. Interest on the bonds is payable each January and July 1, beginning July 1, 2011. These bonds were issued in principal amounts of \$5,000 and integral multiples thereof and mature at various dates beginning July 1, 2011 through January 1, 2024. The balance on these bonds as of June 30, 2015 was \$620,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 245,000	\$ 14,710
2017	250,000	9,688
2018	125,000	3,437
Totals	<u>\$ 620,000</u>	<u>\$ 27,835</u>

B. Jail Renovation

The Caldwell County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for the cost of renovation to the jail facility for \$300,000. The terms of the lease agreement are monthly principal and interest payments at an interest rate of 4.189% for a ten year period. The balance on the financing agreement as of June 30, 2015 was \$107,947. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 33,248	\$ 4,251
2017	34,909	2,809
2018	36,654	1,300
2019	3,136	38
Totals	<u>\$ 107,947</u>	<u>\$ 8,398</u>

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

Note 5. Long-term Debt (Continued)

C. Fire Truck

The Caldwell County Fiscal Court entered into a lease agreement with the Farmers Bank & Trust Company for the purchase of a 2011 fire truck for \$487,477. The terms of the lease agreement are monthly principal and interest payments at an interest rate of 3.950% for a ten year period. The balance on the financing agreement as of June 30, 2015 was \$322,799. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 47,157	\$ 11,941
2017	49,085	10,012
2018	51,060	8,038
2019	53,113	5,984
2020	55,240	3,857
2021-2022	67,144	1,725
Totals	<u>\$ 322,799</u>	<u>\$ 41,557</u>

D. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 860,000	\$	\$ 240,000	\$ 620,000	\$ 245,000
Financing Obligations	507,853		77,107	430,746	80,405
Total Long-term Debt	<u>\$ 1,367,853</u>	<u>\$</u>	<u>\$ 317,107</u>	<u>\$ 1,050,746</u>	<u>\$ 325,405</u>

Note 6. 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.

Note 7. Employee Retirement System

A. Plan Description

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous and hazardous duty positions in the county. The Plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

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

Note 7. Employee Retirement System (Continued)

A. Plan Description (Continued)

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

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

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

The county's contribution for FY 2013 was \$406,618, FY 2014 was \$362,022, and FY 2015 was \$328,338.

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

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

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

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

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%

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

Note 7. Employee Retirement System (Continued)

A. Plan Description (Continued)

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

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

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

B. Net Pension Liability

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

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Hazardous	\$ 1,010,000	\$ 904,000
Non-Hazardous	<u>2,324,000</u>	<u>2,053,000</u>
Totals	<u>\$ 3,334,000</u>	<u>\$ 2,957,000</u>

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

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

Note 8. Deferred Compensation

On February 4, 2000, the Caldwell 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 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 9. Health Reimbursement Account/Flexible Spending Account

The Caldwell County Fiscal Court established a flexible spending account on March 1, 2002 to provide employees an additional health benefit. The county administers the plan. The plan provides reimbursement to each eligible employee providing \$3,000 each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction.

Note 10. Insurance

For the fiscal year ended June 30, 2015, Caldwell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Subsequent Events

On August 13, 2015, the Caldwell County Fiscal Court entered into a memorandum of understanding with the Caldwell County EMS, Inc., by which the EMS desired to dissolve and the fiscal court desired to maintain ambulance service in Caldwell County. Effective September 10, 2015, the EMS will cease operations in Caldwell County and transfer all assets and liabilities to the fiscal court. The fiscal court will assume all liabilities and assets of the EMS including salaries.

The fiscal court had budgeted contributions of \$190,840 for fiscal year 2015-2016. However, the fiscal court has paid costs of \$547,076 as of May 2, 2016. This represents an additional cost burden of \$356,236 in ambulance expenses.

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

Note 12. Related Party Transactions

- a. The Caldwell County Judge/Executive is part owner of a business the county routinely purchases office supplies from. The county purchased \$579 of office supplies from this company since January 2015.
- b. The county treasurer owns a company which manages County Budget Reporter (CBR) accounting software. Caldwell County purchased the CBR software prior to the county treasurer being selected as county treasurer. The county paid \$1,300 to this company for software maintenance during FYE 6-30-15.

Note 13. Payroll Revolving Account

The reconciled balance of the payroll revolving account was added to the FYE 6-30-14 general fund cash balance for financing reporting purposes. The surplus in the payroll account was eliminated in FYE 6-30-15.

Note 14. Prior Period Adjustments

Ending Cash Balance Prior Year	\$ 615,977
Adjustments:	
Prior Year Voided Check- General Fund	1,100
Prior Year Voided Checks- Road Fund	498
Prior Year Voided Check- LGEA Fund	<u>399</u>
Beginning Fund Balance - Restated	<u><u>\$ 617,974</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

CALDWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

CALDWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,853,519	\$ 2,853,519	\$ 2,812,640	\$ (40,879)
In Lieu Tax Payments	60,600	60,600	64,545	3,945
Excess Fees	20,315	20,315	57,206	36,891
Licenses and Permits	6,000	6,000	10,261	4,261
Intergovernmental	396,310	446,310	401,044	(45,266)
Charges for Services	20,000	20,000	20,000	
Miscellaneous	28,500	28,500	164,414	135,914
Interest	25	25	39	14
Total Receipts	<u>3,385,269</u>	<u>3,435,269</u>	<u>3,530,149</u>	<u>94,880</u>
DISBURSEMENTS				
General Government	1,385,382	1,395,064	1,237,060	158,004
Protection to Persons and Property	262,737	330,575	318,179	12,396
General Health and Sanitation	45,300	45,300	43,300	2,000
Social Services	9,900	10,272	6,272	4,000
Recreation and Culture	284,000	386,692	377,991	8,701
Airports	5,000	5,000		5,000
Debt Service	449,057	450,157	420,438	29,719
Administration	823,548	704,339	586,461	117,878
Total Disbursements	<u>3,264,924</u>	<u>3,327,399</u>	<u>2,989,701</u>	<u>337,698</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>120,345</u>	<u>107,870</u>	<u>540,448</u>	<u>432,578</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	204,285	204,285	668,359	464,074
Transfers To Other Funds	(754,630)	(754,630)	(1,076,758)	(322,128)
Borrowed Money	200,000	200,000		(200,000)
Total Other Adjustments to Cash (Uses)	<u>(350,345)</u>	<u>(350,345)</u>	<u>(408,399)</u>	<u>(58,054)</u>
Net Change in Fund Balance	(230,000)	(242,475)	132,049	374,524
Fund Balance Beginning (Restated)	<u>230,000</u>	<u>230,000</u>	<u>63,338</u>	<u>(166,662)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (12,475)</u>	<u>\$ 195,387</u>	<u>\$ 207,862</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,517,838	\$ 1,688,918	\$ 1,734,674	\$ 45,756
Miscellaneous	4,100	4,100	3,116	(984)
Interest	550	550	292	(258)
Total Receipts	<u>1,522,488</u>	<u>1,693,568</u>	<u>1,738,082</u>	<u>44,514</u>
DISBURSEMENTS				
Roads	1,345,275	1,596,111	1,315,846	280,265
Administration	272,928	361,053	202,338	158,715
Total Disbursements	<u>1,618,203</u>	<u>1,957,164</u>	<u>1,518,184</u>	<u>438,980</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(95,715)</u>	<u>(263,596)</u>	<u>219,898</u>	<u>483,494</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			435,000	435,000
Transfers To Other Funds	(204,285)	(204,285)	(639,285)	(435,000)
Total Other Adjustments to Cash (Uses)	<u>(204,285)</u>	<u>(204,285)</u>	<u>(204,285)</u>	
Net Change in Fund Balance	(300,000)	(467,881)	15,613	483,494
Fund Balance Beginning (Restated)	<u>300,000</u>	<u>467,881</u>	<u>468,379</u>	<u>498</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 483,992</u>	<u>\$ 483,992</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 191,000	\$ 191,000	\$ 208,525	\$ 17,525
Charges for Services	74,750	74,750	74,537	(213)
Miscellaneous	6,500	6,500	5,461	(1,039)
Interest	30	30	56	26
Total Receipts	<u>272,280</u>	<u>272,280</u>	<u>288,579</u>	<u>16,299</u>
DISBURSEMENTS				
Protection to Persons and Property	580,656	593,756	500,807	92,949
Administration	263,934	238,334	171,552	66,782
Total Disbursements	<u>844,590</u>	<u>832,090</u>	<u>672,359</u>	<u>159,731</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(572,310)</u>	<u>(559,810)</u>	<u>(383,780)</u>	<u>176,030</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	572,310	572,310	450,000	(122,310)
Total Other Adjustments to Cash (Uses)	<u>572,310</u>	<u>572,310</u>	<u>450,000</u>	<u>(122,310)</u>
Net Change in Fund Balance		12,500	66,220	53,720
Fund Balance Beginning			8,917	8,917
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 12,500</u>	<u>\$ 75,137</u>	<u>\$ 62,637</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 41,340	\$ 41,340	\$ 30,580	\$ (10,760)
Intergovernmental	287,620	287,620	265,709	(21,911)
Charges for Services	4,900	4,900	3,360	(1,540)
Miscellaneous	4,500	4,500	7,063	2,563
Interest	50	50	105	55
Total Receipts	<u>338,410</u>	<u>338,410</u>	<u>306,817</u>	<u>(31,593)</u>
DISBURSEMENTS				
General Government	43,549	43,608	34,082	9,526
General Health and Sanitation	176,171	177,171	120,808	56,363
Social Services	2,000	2,383	1,883	500
Roads	40,000	40,166	40,166	
Administration	92,037	90,429	55,395	35,034
Total Disbursements	<u>353,757</u>	<u>353,757</u>	<u>252,334</u>	<u>101,423</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(15,347)</u>	<u>(15,347)</u>	<u>54,483</u>	<u>69,830</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			50,000	50,000
Transfers To Other Funds			(50,000)	(50,000)
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balance	(15,347)	(15,347)	54,483	69,830
Fund Balance Beginning (Restated)	<u>15,347</u>	<u>15,347</u>	<u>16,500</u>	<u>1,153</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 70,983</u>	<u>\$ 70,983</u>

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

	GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 35,000	\$ 35,000	\$ 28,282	\$ (6,718)
Total Receipts	<u>35,000</u>	<u>35,000</u>	<u>28,282</u>	<u>(6,718)</u>
DISBURSEMENTS				
Protection to Persons and Property	35,000	35,000	34,821	179
Total Disbursements	<u>35,000</u>	<u>35,000</u>	<u>34,821</u>	<u>179</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>(6,539)</u>	<u>(6,539)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			35,000	35,000
Transfers To Other Funds			<u>(37,782)</u>	<u>(37,782)</u>
Total Other Adjustments to Cash (Uses)			<u>(2,782)</u>	<u>(2,782)</u>
Net Change in Fund Balance			(9,321)	(9,321)
Fund Balance Beginning			<u>9,331</u>	<u>9,331</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10</u>	<u>\$ 10</u>

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

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$		\$ 9,673	\$ 9,673
Interest		20	20	(20)
Total Receipts		<u>20</u>	<u>9,673</u>	<u>9,653</u>
DISBURSEMENTS				
Protection to Persons and Property Administration	183,340	183,340	176,758	6,582
		25	25	
Total Disbursements	<u>183,340</u>	<u>183,365</u>	<u>176,783</u>	<u>6,582</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(183,320)</u>	<u>(183,345)</u>	<u>(167,110)</u>	<u>16,235</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	182,320	182,320	176,758	(5,562)
Transfers To Other Funds			(11,292)	(11,292)
Total Other Adjustments to Cash (Uses)	<u>182,320</u>	<u>182,320</u>	<u>165,466</u>	<u>(16,854)</u>
Net Change in Fund Balance	(1,000)	(1,025)	(1,644)	(619)
Fund Balance Beginning	<u>1,000</u>	<u>1,000</u>	<u>1,644</u>	<u>644</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (25)</u>	<u>\$ 0</u>	<u>\$ 25</u>

CALDWELL COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

Note 1. Budgetary Information

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

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

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of the General Fund

Reconciliation of the General Fund

Taxes-Budgetary Basis	\$ 2,812,640
To adjust for Hospital Taxing District Receipts	<u>(266,865)</u>
Total Intergovernmental-Regulatory Basis	<u>\$ 2,545,775</u>
Debt Service-Budgetary Basis	\$ 420,438
To adjust for Hospital Taxing District Debt Service	<u>(266,865)</u>
Total Debt Service-Regulatory Basis	<u>\$ 153,573</u>

THIS PAGE LEFT BLANK INTENTIONALLY

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

CALDWELL COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 453,421	\$	\$	\$ 453,421
Buildings	6,299,194			6,299,194
Vehicles and Other Equipment	3,030,657	109,909	24,000	3,116,566
Infrastructure	5,100,845	639,077		5,739,922
Total Capital Assets	<u>\$ 14,884,117</u>	<u>\$ 748,986</u>	<u>\$ 24,000</u>	<u>\$15,609,103</u>

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

June 30, 2015

Note 1. Capital Assets

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

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

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Caldwell County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Caldwell County Fiscal Court's financial statement and have issued our report thereon dated June 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Caldwell County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Caldwell County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Caldwell County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-001, 2015-002, 2015-003, 2015-004, and 2015-005 to be material weaknesses.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Caldwell County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2015-001, 2015-002, 2015-003, 2015-005, and 2015-006.

County Judge/Executive's And Jailer's Responses to Findings

The Caldwell County Judge/Executive's and the Caldwell County Jailer's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The county judge/executive's and jailer'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 27, 2016

**CALDWELL COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2015

CALDWELL COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The Fiscal Court Failed To Keep Required Accounting Records For Occupational And Net Profit Taxes

The Caldwell Fiscal Court failed to maintain subsidiary ledgers for occupational and net profit taxes. Subsidiary ledgers were requested from the Occupational Tax Administrator (OTA). The OTA did not provide any supporting documentation until a meeting was held with the county judge/executive eight working days later. The documents then received were not subsidiary ledgers, but a recap of deposits for the entire year. The recap of deposits did not agree to the deposit books or the county treasurer's receipts ledger. The occupational tax deposit ledger was understated by \$10,299, and the net profit tax deposit ledger was understated by \$71,273, when compared to the year-end financial statement and deposit tickets.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government (DLG) *County Budget Preparation & State Local Finance Officer Policy Manual* requires all counties to maintain a uniform system which includes a cash receipts ledger. The manual describes a cash receipts ledger as follows: "A monthly compilation by fund and account code of receipts recorded on the cash receipts journal. Each item will have a separate page in the cash receipts ledger. Each ledger page will identify the name of the revenue account, the account code and the amount budgeted. A monthly total is posted and a cumulative total is maintained. At the end of each quarter, the year-to-date figure is carried directly to the treasurer's portion of the quarterly financial statement." Additionally, good internal controls require proper record keeping in order to prevent and deter misappropriation of county revenue.

The OTA refused to use software already purchased by the county that would have provided sufficient accounting records through a subsidiary ledger. Additionally, there was a lack of management oversight to verify that the OTA was keeping the required accounting records.

Failure to keep required accounting records and subsidiary ledgers may lead to misappropriation of assets, misleading financial statements, and also causes the fiscal court to be non-compliant with state laws and regulations. Additionally, the lack of supporting documentation of occupational tax receipts caused the county to receive a qualified audit opinion.

We recommend the fiscal court require subsidiary ledgers as well as other supporting accounting records be maintained for occupational and net profit taxes. Additionally, the fiscal court should verify that the OTA is using purchased software and that the occupational tax and net profit tax records are maintained in a timely manner.

County Judge/Executive's Response: The OTA has been instructed to use the software program provided by the fiscal court to maintain a uniform system which includes a cash receipts ledger/subsidiary ledger. Monthly reports, as well as cumulative annual reports, shall be made available to the Fiscal Court. Delinquent reports will also be generated regularly. The OTA has been advised of these expectations.

**CALDWELL COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2015
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-002 The Jailer Failed To Properly Document Assets Or Declare Assets As Surplus Property

The jailer purchased a Chevrolet 1500 for \$13,000 on November 15, 2014 and traded in a GMC Envoy for a credit of \$3,299. On May 15, 2015, the jailer purchased a Chevrolet Suburban for \$16,500 which included a trade-in of the previously purchased Chevrolet 1500 for \$10,199. Additionally, the jailer purchased a Ford tractor in December 2014, which he later sold for \$4,000 and did not collect a proper receipt. The jailer never declared these items as surplus or how these items were to be disposed.

KRS 67.0802(2) states, "Before selling or otherwise disposing of any real or personal property, the county shall make a written determination setting forth and fully describing: (a) The real or personal property; (b) Its intended use at the time of acquisition; (c) The reasons why it is in the public interest to dispose of it; and (d) The method of disposition to be used." Additionally, good internal controls dictate management oversight of capital assets to prevent misappropriation or theft.

Lack of oversight and monitoring caused assets to be improperly disposed of. Assets could be misappropriated if the appropriate procedures are not followed for declaring property as surplus.

We recommend that the jailer properly declare property as surplus prior to disposition in accordance with KRS 67.0802(2).

County Jailer's Response: All issues brought to my attention will be corrected in a timely manner.

2015-003 The Fiscal Court Failed To Properly Document Required Supporting Payroll Information

The fiscal court did not require timesheets for the county treasurer, finance officer, road supervisor, EMA Director, or assistant county attorney. Additionally, three employees (a sheriff deputy, the former county judge administrative assistant, and the occupational tax administrator) timesheets had no supervisor approval. Also, there was no record maintained for the jailer's or sheriff's employee leave balances. Fiscal court employees were also not keeping correct records of time worked. Employees were recording 40 hour work weeks, when in actuality 35 to 37.5 hour schedules were being worked.

KRS 337.320 requires "(1) Every employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires." Additionally, good internal controls dictate management oversight of payroll activities to prevent misappropriation or theft.

A lack of internal controls including requiring timesheets for all employees as well as proper documentation of supervisor review of timesheets, and documentation of actual time worked caused inaccurate payroll records. A breakdown in communication caused no documentation to be maintained for jail and sheriff's employee leave balances. The jailer and sheriff thought the finance officer was keeping leave balances and the finance officer thought the jailer and sheriff were keeping the balances. The effects include possible payments to employees for time not earned or received. Additionally, the fiscal court could be paying benefits not due to employees and is misstating the hourly wages paid to employees.

We recommend the fiscal court require timesheets for all employees, all timesheets document actual hours worked and be signed by employee's supervisor, and leave balances be maintained for all employees in order to be in compliance with KRS 337.320.

**CALDWELL COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2015
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-003 The Fiscal Court Failed To Properly Document Required Supporting Payroll Information
(Continued)

County Judge/Executive's Response: All employees will continue to keep accurate time sheets which are to be reviewed and signed by their supervisor. Time sheets will include actual time worked for each day. Expectations are that employees will be on the job 8 hours (including two 15 minute breaks) and a 30 minute unpaid lunch break. Paid leave balances are kept in the Judge/Executive's office for all County employees.

2015-004 The Jail Lacks Adequate Segregation Of Duties Over The Accounting Functions And Has
Insufficient Internal Controls

A lack of segregation of duties exists over the accounting functions at the Caldwell County Jail. One employee collected inmate fees, prepared deposits, made deposits, prepared monthly reports, remitted monthly reports along with inmate fees to the county treasurer, and made payments from the bank account. There were no compensating controls implemented that would offset the lack of segregation of duties.

This condition is due to the jail not segregating duties or implementing compensating controls. Lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

Segregation of duties over the related accounting functions, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the jailer segregate duties or implement compensating controls such as:

- Comparing the daily bank deposit to the daily checkout sheet and then comparing the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The jailer could document this by initialing the bank deposit, daily deposit, and receipts ledger for the day checked.
- Comparing the monthly, quarterly, and annual financial reports to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The jailer could document this by initialing the receipts and disbursements ledgers or denoting the comparison on the financial reports.

Additionally, the jailer should not allow anyone to sign documents using his signature.

County Jailer's Response: All issues brought to my attention will be corrected in a timely manner.

**CALDWELL COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2015
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-005 The Jailer Did Not Require Daily Deposits, Issue Receipts For All Funds Collected, Require Disbursements Be Made By Check, Remit Inmate Fees To The Treasurer Timely, Or Create A System For Collection Of Inmate Accounts Receivable

The jailer failed to implement proper accounting procedures for the jail commissary. Deposits are not being made on a daily basis. Inmates' monies were kept in a drawer and given back to them in the form of cash rather than properly depositing the inmate funds and disbursing the monies by check. Receipts were not issued to inmates for commissary purchases or to persons who left money for inmates. Inmate fees were held and not remitted to the treasurer in a timely manner. The jail administrative assistant refuses to issue receipts except for inmate fees paid to the fiscal court. Inmate fees are paid to the treasurer in cash. Additionally, there is currently no cumulative total for funds owed the jail by inmates. Inmate fees collected could not all be traced to inmate activity since there was no documentation of all inmates incarcerated on any given day. If an inmate is booked and leaves the same day, the inmate does not appear on any inmate log.

Jail commissary fund instructions issued by the Department for Local Government pursuant to KRS 68.210 require daily deposits and all disbursements be made by check as part of the minimum accounting requirements for the jail commissary. Additionally, KRS 64.840 requires issuance of receipt for payment of fine, forfeiture, tax, or fee. Additionally, good internal controls dictate management oversight of commissary receipts to prevent misappropriation or theft.

A lack of management oversight resulted in jail revenues being understated in some months since fees were not remitted timely. The lack of daily deposits, not issuing receipts, or lack of a system for accounts receivable could lead to misappropriated cash and incorrect reporting on the financial statements.

We recommend the jailer require receipts be deposited daily and all disbursements be made by check in order to be in compliance with the minimum accounting standards promulgated pursuant to KRS 68.210. The jailer should issue receipts in accordance with KRS 64.840. The jailer should require inmate fees to be deposited and be remitted to the county treasurer by check in a timely manner. Also, the jailer should create a system of tracking all inmate activity including accounts receivable.

County Jailer's Response: All issues brought to my attention will be corrected in a timely manner.

2015-006 The Fiscal Court Failed To Record Or Approve A Salary Schedule

The Caldwell County Fiscal Court did not record or approve a salary schedule or document salary changes, nor was there supporting documentation in personnel files to support salary payments to employees. KRS 64.530 states, "(1) Except as provided in subsections (5) and (6) of this section, the fiscal court of each county shall fix the reasonable compensation of every county officer and employee except the officers named in KRS 64.535 and the county attorney and jailer."

The fiscal court was unaware that an approved salary listing was required. The approved salary list also gives the county treasurer authority to pay employees. The lack of an approved employee salary listing could cause improper payments to employees.

We recommend the Caldwell County Fiscal Court set and approve a salary schedule in order to properly document approved salaries.

**CALDWELL COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2015
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-006 The Fiscal Court Failed To Record Or Approve A Salary Schedule

County Judge/Executive's Response: Salary schedules will be approved by the Fiscal Court. Salary information is kept in the personnel files of each employee.

THIS PAGE LEFT BLANK INTENTIONALLY

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

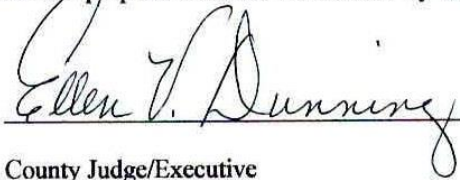
CALDWELL COUNTY FISCAL COURT

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

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
CALDWELL COUNTY FISCAL COURT

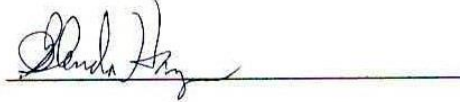
For The Fiscal Year Ended June 30, 2015

The Caldwell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Ellen V. Dunning

County Judge/Executive



Linda Hays

