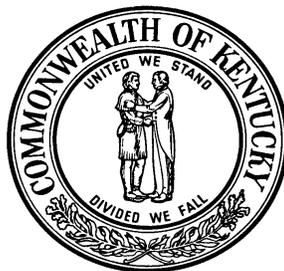


**REPORT OF THE AUDIT OF THE  
CALDWELL COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2011**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Brock Thomas, Caldwell County Judge/Executive  
Members of the Caldwell County Fiscal Court

The enclosed report prepared by Kem, Duguid & Associates, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Caldwell County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements.

We engaged Kem, Duguid & Associates, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Kem, Duguid & Associates, PSC evaluated the Caldwell County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen  
Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE CALDWELL COUNTY FISCAL COURT**

**June 30, 2011**

Kem, Duguid & Associates, PSC has completed the audit of the Caldwell County Fiscal Court for fiscal year ended June 30, 2011.

They have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Caldwell County, Kentucky.

#### **Financial Condition:**

The fiscal court had total net assets of \$8,150,342 as of June 30, 2011. The fiscal court had unrestricted net assets of \$673,422 in its governmental activities as of June 30, 2011, with total net assets of \$8,139,232. In its business-type activities, total net cash and cash equivalents were \$11,110 with total net assets of \$11,110. The fiscal court had total bonds and financing obligations payable of \$1,775,855 as of June 30, 2011 with \$252,358 due within the next year.

#### **Report Comments:**

- 2011-01 Lack Of Adequate Internal Controls Over The Collection Of And Accounting For Occupational And Net Profits Taxes
- 2011-02 Lack Of Adequate Segregation Of Duties Over Revenues And Bank Reconciliations And Financial Statement Preparation
- 2011-03 The Former Jailer Lacked Adequate Segregation Of Duties Over The Accounting Functions
- 2011-04 The Jailer Should Have Required Daily Deposits, All Disbursements Be Made By Check, And Inmate Fees Be Remitted To The Treasurer Timely
- 2011-05 The County Should Approve A Salary Schedule

#### **Deposits:**

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



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MICHAEL A. KEM, CPA  
SANDRA D. DUGUID, CPA  
ANNA B. GENTRY, CPA  
WALTER G. CUMMINGS, CPA



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Brock Thomas, Caldwell County Judge/Executive  
Members of the Caldwell County Fiscal Court

### Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Caldwell County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Caldwell County Fiscal Court. Our responsibility is to express opinions on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Caldwell County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Caldwell County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

To the People of Kentucky  
 Honorable Steven L. Beshear, Governor  
 Lori H. Flanery, Secretary  
 Finance and Administration Cabinet  
 Honorable Brock Thomas, Caldwell County Judge/Executive  
 Members of the Caldwell County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

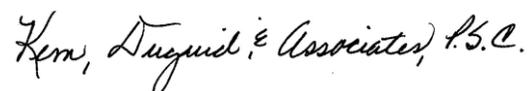
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Caldwell County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 25, 2012 on our consideration of Caldwell County, Kentucky'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 and should be considered in assessing the results of our audit.

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

- 2011-01 Lack Of Adequate Internal Controls Over The Collection Of And Accounting For Occupational And Net Profits Taxes
- 2011-02 Lack Of Adequate Segregation Of Duties Over Revenues And Bank Reconciliations And Financial Statement Preparation
- 2011-03 The Former Jailer Lacked Adequate Segregation Of Duties Over The Accounting Functions
- 2011-04 The Jailer Should Have Required Daily Deposits, All Disbursements Be Made By Check, And Inmate Fees Be Remitted To The Treasurer Timely
- 2011-05 The County Should Approve A Salary Schedule

Respectfully Submitted,



Kem, Duguid & Associates, PSC  
 Certified Public Accountants

May 25, 2012

CALDWELL COUNTY OFFICIALS

For The Year Ended June 30, 2011

**Fiscal Court Members:**

Brock Thomas	County Judge/Executive
Elbert Bennett	Magistrate
Rodney Heaton	Magistrate
Bobby Lewis	Magistrate
Phillip Sisk	Magistrate

**Other Elected Officials:**

James "Bridgie" Miller	County Attorney
John Pettit	Jailer
Toni Watson	County Clerk
Stan Hudson	Sheriff
Ronald Wood	Property Valuation Administrator
Dwayne Trafford	Coroner

**Appointed Personnel:**

Connie Cartwright	County Treasurer
Janie Kirk	Occupational Tax Collector
Darryl Seymore	Finance Officer
Wendall Lane	Road Supervisor
David Crenshaw	911 Administrator
Sandy Trusty	Jail Administrative Assistant

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**CALDWELL COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2011**



**CALDWELL COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2011**

	<b>Primary Government</b>		<b>Totals</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,469,753	\$ 11,110	\$ 1,480,863
Total Current Assets	<u>1,469,753</u>	<u>11,110</u>	<u>1,480,863</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land	239,300		239,300
Land Improvements	174,764		174,764
Buildings	4,689,545		4,689,545
Vehicles and Equipment	949,163		949,163
Infrastructure	2,392,562		2,392,562
Total Noncurrent Assets	<u>8,445,334</u>		<u>8,445,334</u>
Total Assets	<u>9,915,087</u>	<u>11,110</u>	<u>9,926,197</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Financing Obligations	27,358		27,358
Bonds Payable	225,000		225,000
Total Current Liabilities	<u>252,358</u>		<u>252,358</u>
Noncurrent Liabilities:			
Financing Obligations	198,497		198,497
Bonds Payable	1,325,000		1,325,000
Total Noncurrent Liabilities	<u>1,523,497</u>		<u>1,523,497</u>
Total Liabilities	<u>1,775,855</u>		<u>1,775,855</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	6,669,479		6,669,479
Restricted For:			
Protection to Persons and Property	173,465		173,465
Social Services	76,424		76,424
Recreation and Culture			
Debt Service	5,553		5,553
Roads	540,888		540,888
Unrestricted	673,422	11,110	684,532
Total Net Assets	<u>\$ 8,139,232</u>	<u>\$ 11,110</u>	<u>\$ 8,150,342</u>

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

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**CALDWELL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

**CALDWELL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

<b>Functions/Programs Reporting Entity</b>	<b>Expenses</b>	<b>Program Revenues Received</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 2,220,915	\$ 49,423	\$ 478,888	
Protection to Persons and Property	1,045,738	205,254	225,030	11,009
General Health and Sanitation	228,160	1,397		
Social Services	8,513			
Recreation and Culture	121,933			
Roads	1,105,249		260,068	996,110
Interest on Long-Term Debt	238,295			
Total Governmental Activities	<u>4,968,803</u>	<u>256,074</u>	<u>963,986</u>	<u>1,007,119</u>
Business-type Activities:				
Jail Canteen	96,811	50,861		
Total Business-type Activities	<u>96,811</u>	<u>50,861</u>		
Total Primary Government	<u><u>\$ 5,065,614</u></u>	<u><u>\$ 306,935</u></u>	<u><u>\$ 963,986</u></u>	<u><u>\$ 1,007,119</u></u>

**General Revenues:**

Taxes:
Real Property Taxes
Hospital Bond Taxes
Occupational Taxes
Net Profit Taxes
Other Taxes
Telephone Commissions
In Lieu Of Tax
Excess Fees
Reimbursements
Miscellaneous Revenues
Equity Contribution - Hospital Taxing District
Interest Earned
 Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning (Restated)
 Net Assets - Ending

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

**CALDWELL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2011**  
**(Continued)**

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,692,604)	\$	\$ (1,692,604)
(604,445)		(604,445)
(226,763)		(226,763)
(8,513)		(8,513)
(121,933)		(121,933)
150,929		150,929
(238,295)		(238,295)
(2,741,624)		(2,741,624)
	(45,950)	(45,950)
	(45,950)	(45,950)
(2,741,624)	(45,950)	(2,787,574)
339,096		339,096
303,454		303,454
1,118,980		1,118,980
183,853		183,853
280,579		280,579
7,392		7,392
50,929		50,929
292,613		292,613
37,304		37,304
10,646		10,646
575,000		575,000
10,070	31	10,101
3,209,916	31	3,209,947
468,292	(45,919)	422,373
7,670,940	57,029	7,727,969
\$ 8,139,232	\$ 11,110	\$ 8,150,342

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

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**CALDWELL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2011**

**CALDWELL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2011**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>Non-major Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 644,908	\$ 499,492	\$ 318,434	\$ 6,919
Total Assets	<u>644,908</u>	<u>499,492</u>	<u>318,434</u>	<u>6,919</u>
<b>FUND BALANCES</b>				
<b>Restricted For:</b>				
Protection to Persons and Property	28,804		143,295	1,366
General Health and Sanitation			76,424	
Debt Service				5,553
Roads		499,492	41,396	
<b>Unassigned</b>	<u>616,104</u>		<u>57,318</u>	
Total Fund Balances	<u>\$ 644,908</u>	<u>\$ 499,492</u>	<u>\$ 318,434</u>	<u>\$ 6,919</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 1,469,753
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,839,283
Accumulated Depreciation	(3,393,949)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing obligations	(225,855)
General Obligation Bonds	<u>(1,550,000)</u>
Net Assets Of Governmental Activities	<u>\$ 8,139,232</u>

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

CALDWELL COUNTY  
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
June 30, 2011  
(Continued)

<b>Total Governmental Funds</b>	
\$	1,469,753
	<u>1,469,753</u>
	173,465
	76,424
	5,553
	540,888
	<u>673,422</u>
\$	<u>1,469,753</u>

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

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**CALDWELL COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

**CALDWELL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>Non-major Funds</b>
<b>REVENUES</b>				
Taxes	\$ 2,210,555	\$	\$	\$
In Lieu Tax Payments	50,929			
Excess Fees	66,829			
Licenses and Permits	8,110		26,712	
Intergovernmental	605,668	1,302,422	310,803	114,838
Charges for Services	85,132			
Miscellaneous	38,617	29,472	1,938	
Interest	5,990	2,319	766	995
Total Revenues	<u>3,071,830</u>	<u>1,334,213</u>	<u>340,219</u>	<u>115,833</u>
<b>EXPENDITURES</b>				
General Government	1,312,754		31,869	
Protection to Persons and Property	595,065		132,000	298,178
General Health and Sanitation	106,819		67,997	
Social Services	8,351		162	
Recreation and Culture	114,910			
Roads	5,000	1,359,476	35,773	
Debt Service	196,681		12,598	93,407
Administration	669,975	153,285	13,820	
Total Expenditures	<u>3,009,555</u>	<u>1,512,761</u>	<u>294,219</u>	<u>391,585</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>62,275</u>	<u>(178,548)</u>	<u>46,000</u>	<u>(275,752)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers from Other funds	550,000	100,000		351,320
Transfers to Other funds	(901,320)	(100,000)		
Equity Contribution Hospital Taxing District				575,000
Proceeds from the Issuance of Refunding Debt				1,550,000
Payment to Refunded Bonds Redeemed				(2,195,000)
Total Other Financing Sources (Uses)	<u>(351,320)</u>			<u>281,320</u>
Net Change in Fund Balances	(289,045)	(178,548)	46,000	5,568
Fund Balances - Beginning (Restated)	<u>933,953</u>	<u>678,040</u>	<u>272,434</u>	<u>1,351</u>
Fund Balances - Ending	<u>\$ 644,908</u>	<u>\$ 499,492</u>	<u>\$ 318,434</u>	<u>\$ 6,919</u>

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

**CALDWELL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2011**  
**(Continued)**

<b>Total Governmental Funds</b>
\$ 2,210,555
50,929
66,829
34,822
2,333,731
85,132
70,027
10,070
4,862,095
1,344,623
1,025,243
174,816
8,513
114,910
1,400,249
302,686
837,080
5,208,120
(346,025)
1,001,320
(1,001,320)
575,000
1,550,000
(2,195,000)
(70,000)
(416,025)
1,885,778
\$ 1,469,753

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

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**CALDWELL COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**



**CALDWELL COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

Net Change in Fund Balances - Total Governmental Funds	\$ (416,025)
<p>Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and are reported as depreciation expense</p>	
Capital Outlay	174,506
Infrastructure Outlay	389,304
Depreciation Expense	(388,884)
<p>The issuance of long-term debt (e.g. Bonds, Financing Obligations) increases current financial resources to governmental funds. These transactions, however, have no effect on net assets.</p>	
Proceeds from the Issuance of Refunding Debt	(1,550,000)
<p>Bond and financing obligation payments expensed in the governmental funds as a use of current financial resources.</p>	
Financing Obligations Principal Amount	64,391
General Obligation Bonds Principal Amount	<u>2,195,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 468,292</u></u>

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

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**CALDWELL COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS**

**June 30, 2011**



**CALDWELL COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS**

**June 30, 2011**

	<b>Business-Type Activity</b>
	<b>Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 11,110
Total Current Assets	11,110
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	14,750
Less Accumulated Depreciation	(14,750)
Total Noncurrent Assets	0
Total Assets	11,110
<b>Net Assets</b>	
Invested in Capital Assets	0
Unrestricted	11,110
Total Net Assets	\$ 11,110

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

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**CALDWELL COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**



**CALDWELL COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

	<b>Business-Type Activity</b>
	<b>Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 50,861
Total Operating Revenues	50,861
<b>Operating Expenses</b>	
Cost of Sales	31,355
Depreciation	2,950
Education and Recreational	1,761
Miscellaneous	60,745
Total Operating Expenses	96,811
Operating Income (Loss)	(45,950)
<b>Nonoperating Revenues (Expenses)</b>	
Interest Income	31
Total Nonoperating Revenues (Expenses)	31
Change In Net Assets	(45,919)
Total Net Assets - Beginning	57,029
Total Net Assets - Ending	\$ 11,110

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

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**CALDWELL COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**



**CALDWELL COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

	<b>Business-Type Activity</b>
	<b>Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Cash Receipts From Canteen Sales	\$ 50,861
Cash Paid To Vendors For Goods and Services	(93,861)
Net Cash Provided By Operating Activities	(43,000)
<b>Cash Flows From Investing Activities</b>	
Interest Earned	31
Net Cash Provided By Investment Activities	31
Net Decrease in Cash and Cash Equivalents	(42,969)
Cash and Cash Equivalents - July 1, 2010	54,079
Cash and Cash Equivalents - June 30, 2011	\$ 11,110
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income (Loss)	\$ (45,950)
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities	
Depreciation Expense	2,950
Net Cash Provided By Operating Activities	\$ (43,000)

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

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**CALDWELL COUNTY**  
**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2011**



**CALDWELL COUNTY**  
**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2011**

	<u>Agency Fund</u> <u>Flexible</u> <u>Spending Account</u> <u>Fund</u>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 8,630
Total Assets	<u>8,630</u>
<b>Liabilities</b>	
Amounts Held In Custody For Others	<u>8,630</u>
Total Liabilities	<u>8,630</u>
<b>Net Assets</b>	
Total Net Assets	<u>\$ 0</u>

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

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TO THE FINANCIAL STATEMENTS**

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**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

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

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Caldwell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The county has no discretely presented component units.

**C. 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 officials are not part of the Caldwell County reporting entity.

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

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
**(Continued)**

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

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

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 lien and sale the third Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or types (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
**(Continued)**

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

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds**

The primary government reports the following major governmental 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 source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – The primary purpose of this fund is to account for the revenues distributed to Kentucky counties under KRS 42.455 and expenditures in compliance with this statute.

The primary government also has the following non-major fund: Ambulance Fund.

**Special Revenue Funds:**

The Road Fund, Local Government Economic Assistance Fund, and Ambulance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**Debt Service Fund:**

The General Obligation Bond Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)**

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

**D. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds (Continued)**

Enterprise Fund:

The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major enterprise fund:

Jail Canteen 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 or recreation 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 Canteen Fund.

**Fiduciary Funds**

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county reports one agency fund, a Flexible Spending Account Fund, which is used to account for monies held by the treasurer for custodial purposes only. Unlike other funds, agency funds report assets and liabilities only; therefore, they have no measurement focus.

**E. Deposits and Investments**

The government's cash and cash equivalents are generally 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.

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).

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
**(Continued)**

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

**F. 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 in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land	\$ 1	
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Construction in Process	\$ 1	
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize 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 expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

**CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)**

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

**H. Fund Equity (Continued)**

Spendable include the following:

- Restricted - amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed - amounts constrained for a specific purpose by the County using its highest level of decision making authority.
- Assigned - for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the General Fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned - for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the County Treasurer to carry out the intent of the Fiscal Court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the Fiscal Court incurs no liability until performance has occurred on the part of the party with whom the Fiscal Court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The State Local Finance Officer does not require formal budgets to be adopted for the Jail Canteen Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures 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. Expenditures may not exceed budgeted appropriations at the activity level.

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
**(Continued)**

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

**I. Budgetary Information (Continued)**

Formal budgets are not adopted for the General Obligation Bond Fund and the Public Properties Corporation Debt Service Fund. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

**J. Joint Ventures**

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Caldwell County Fiscal Court:

Pennyrile Emergency Assistance Center

The Caldwell County Fiscal Court has retained an ongoing financial responsibility for the Pennyrile Emergency Assistance Center. The Center is a joint venture between the Fiscal Court and The City of Princeton “to provide a centralized dispatch service for cooperative ambulance, fire, rescue, emergency, and law enforcement agencies” within the county and city. The Fiscal Court and the City of Princeton are each responsible for fifty percent of the basic administrative included in the budget of the Center. During the fiscal year 2011, the Fiscal Court paid \$52,500 to the Center.

Pennyrile Westpark Industrial Development Authority

The Caldwell County Fiscal Court has retained an ongoing financial responsibility for the Pennyrile Westpark Industrial Development Authority (PARK). The Pennyrile Westpark Industrial Development Authority is a joint venture between the Fiscal Court and the Counties of Crittenden, Livingston, Lyon, and Trigg “for the purpose of acquiring and developing land, marketing sites, and assisting and supporting tenants at the Park in order to stimulate and promote economic development in the jurisdictions” All parties are responsible for fifteen percent of the basic administrative included in the budget of the Park except for Lyon County, which is responsible for forty percent. During the fiscal year 2011, the Fiscal Court paid \$32,000 to the Park.

**K. Jointly Governed Organizations**

A jointly governed organization is a regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based upon these criteria, the Princeton-Caldwell County Industrial Development Authority and the City-County Park are considered to be jointly governed organizations of the Caldwell County Fiscal Court.

**CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)**

**Note 2. Deposits and Investments**

**A. Deposits**

The primary government 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(4), 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 to it. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**B. Investments**

As of June 30, 2011, the County had the following investments, which are included in cash and cash equivalents:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value (Cost)</u>
Certificates of Deposit	Greater than 90 days	\$500,000

**Interest Rate Risk**

The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, non-negotiable certificates of deposit are not subject to interest rate risk.

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
**(Continued)**

**Note 2. Deposits and Investments (Continued)**

**B. Investments (Continued)**

Credit Risk

KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government; certificates of deposit issued by or other interest bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity; uncollateralized certificates of deposit issued by a bank or savings and loan institutions rated in one of the three highest categories by a nationally recognized rating agency; bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; securities issued by a state or local government, or any instrumentality of agency, thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency; and shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of four specifically named investments as allowed by KRS 66.480. Certificates of deposit are not considered a limited investment per KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, non-negotiable certificates of deposit are not subject to investment credit risk.

Custodial Credit Risk-Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. The County's certificate of deposit is included in the custodial credit risk note disclosure for deposits.

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 239,300	\$	\$	\$ 239,300
Total Capital Assets Not Being Depreciated	239,300			239,300
Capital Assets, Being Depreciated:				
Land Improvements	227,522			227,522
Buildings	6,046,737			6,046,737
Vehicles and Equipment	2,119,053	174,506		2,293,559
Infrastructure	2,642,861	389,304		3,032,165
Total Capital Assets Being Depreciated	11,036,173	563,810		11,599,983
Less Accumulated Depreciation For:				
Land Improvements	(45,135)	(7,623)		(52,758)
Buildings	(1,238,229)	(118,963)		(1,357,192)
Vehicles and Equipment	(1,229,218)	(115,178)		(1,344,396)
Infrastructure	(492,483)	(147,120)		(639,603)
Total Accumulated Depreciation	(3,005,065)	(388,884)		(3,393,949)
Total Capital Assets, Being Depreciated, Net	8,031,108	174,926		8,206,034
Governmental Activities Capital Assets, Net	<u>\$ 8,270,408</u>	<u>\$ 174,926</u>	<u>\$ 0</u>	<u>\$ 8,445,334</u>
<u>Business Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 14,750	\$	\$	\$ 14,750
Total Capital Assets Being Depreciated	14,750			14,750
Less Accumulated Depreciation For:				
Vehicles and Equipment	(11,800)	(2,950)		(14,750)
Total Accumulated Depreciation	(11,800)	(2,950)		(14,750)
Business Type Activities Capital Assets, Net	<u>\$ 2,950</u>	<u>\$ (2,950)</u>	<u>\$ 0</u>	<u>\$ 0</u>

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 51,802
Protection to Persons and Property	62,527
Health and Sanitation	53,344
Recreation and Culture	7,023
Roads	<u>214,188</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 388,884</u>

Business Type Activities:

Jail Canteen	<u>\$ 2,950</u>
Total Depreciation Expense - Business Type Activities	<u>\$ 2,950</u>

**Note 4. Long-term Debt**

**A. General Obligations Refunding Bonds, Series 1999 (Hospital Revenue Bonds)**

The Fiscal Court issued series 1999 bonds in the amount of \$3,175,000 for the purpose of refunding Series 1996 bonds. These bonds were issued in principal amounts of \$5,000 and integral multiples thereof and mature at various dates beginning January 1, 2000 through January 1, 2024. The bonds were refunded December 2010.

**B. General Obligations Refunding Bonds, Series 2010 (Hospital Revenue Bonds)**

The Fiscal Court issued 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, 2018.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 225,000	\$ 33,495
2013	230,000	28,810
2014	235,000	24,210
2015	240,000	19,510
2016	245,000	14,710
2017-2018	<u>375,000</u>	<u>13,125</u>
Totals	<u>\$ 1,550,000</u>	<u>\$ 133,860</u>

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**C. Jail Facility**

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 Fiscal Court was in compliance with the terms of the agreement as of June 30, 2011. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 27,358	\$ 9,354
2013	28,724	8,159
2014	30,159	6,918
2015	31,666	5,613
2016	33,248	4,251
2017-2019	74,700	4,147
Totals	<u>\$ 225,855</u>	<u>\$ 38,442</u>

**D. Ambulance Service Building**

This lease agreement was paid off in FY 2011.

**E. Rescue Truck**

This lease agreement was paid off in FY 2011.

**F. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<b><u>Governmental Activities:</u></b>					
General Obligation Bonds	\$ 2,195,000	\$ 1,550,000	\$ 2,195,000	\$ 1,550,000	\$ 225,000
Financing Obligations	290,246		64,391	225,855	27,358
Governmental Activities					
Long-term Liabilities	<u>\$ 2,485,246</u>	<u>\$ 1,550,000</u>	<u>\$ 2,259,391</u>	<u>\$ 1,775,855</u>	<u>\$ 252,358</u>

**Note 5. Interest On Long-Term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$124,224 in interest on bonds, \$11,506 interest on financing obligations, and \$27,163 in cost of issuance.

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
**(Continued)**

**Note 6. Employee Retirement System**

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. 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.

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 the plan. The County's contribution rate for nonhazardous employees was 16.93 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The County's contribution rate for hazardous employees was 33.25 percent.

The County's contribution for FY 2009 was \$244,957, FY 2010 was \$282,999, and FY 2011 was \$316,048.

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 (members 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:

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
**(Continued)**

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

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen 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.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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.

**Note 7. Deferred Compensation**

In March 1997, the Caldwell County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

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

Historical trend information illustrating 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 8. Insurance**

For the fiscal year ended June 30, 2011, 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 9. Change in Accounting Principle**

Caldwell County has adopted Governmental Accounting Standards Board's Statement number 54. This standard requires special revenue funds to receive a significant portion of their revenues as restricted for use by entities outside the county. The County properly uses a Jail Fund and Grant Fund in accordance with State Local Finance Officer requirements, but because the Jail Fund and Grant Fund do not receive any restricted revenue, they do not meet the definition of special revenue funds. Therefore, fund balance, revenues, and expenses of the Jail Fund and Grant Fund are reported in the General Fund.

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
**(Continued)**

**Note 10. Prior Period Adjustments**

		<u>Governmental Activities</u>	
Net Assets Ending Balance Prior Year		\$	7,670,397
Plus:			
General Fund Prior Year Voided Checks	\$	423	
Road Fund Prior Year Voided Checks		52	
Jail Fund Prior Year Voided Checks		68	543
Net Assets Beginning Balance - Restated		\$	7,670,940
		<u>General Fund</u>	
Ending Fund Balance Prior Year		\$	917,512
Plus:			
Jail Fund Prior Year Fund Balance	\$	15,940	
Grant Fund Prior Year Fund Balance		10	
General Fund Prior Year Voided Checks		423	
Jail Fund Prior Year Voided Checks		68	16,441
General Fund Balance - Restated		\$	933,953
		<u>Road Fund</u>	
Ending Fund Balance Prior Year		\$	677,988
Plus:			
Road Fund Prior Year Voided Checks	\$	52	52
Road Fund Balance - Restated		\$	678,040
		<u>Non-Major Funds</u>	
Ending Fund Balances Prior Year		\$	1,361
Less:			
Grant Fund Prior Year Fund Balance		(10)	(10)
Non-Major Fund Balances - Restated		\$	1,351

Note: Jail Fund and Grant Fund are included in the General Fund GASB 54 presentation.

**CALDWELL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
**(Continued)**

**Note 11. Transfers**

The table below shows the interfund operating transfers for fiscal year 2011.

<u>Governmental Activities</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net</u>
General Fund	\$ 550,000	\$ 901,320	\$ (351,320)
Road Fund	100,000	100,000	0
General Obligation Bond Fund	167,980		167,980
Ambulance Fund	183,340		183,340
	<u>\$ 1,001,320</u>	<u>\$ 1,001,320</u>	<u>\$ 0</u>

Reasons For Transfers:

1. To move resources from the General Fund, for budgetary purposes, to the fund that will expend them.
2. To move resources from the Road Fund, for budgetary purposes, to the fund that will expend them.
3. To move from Hospital Taxing District an equity contribution for 2010 bond issue.
4. To move resources from the General Fund, for budgetary purposes, to the fund that will expend them.

**CALDWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2011**



**CALDWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2011**

	<b>GENERAL FUND</b>			
	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	(Budgetary	Final Budget
			Basis)	Positive
				(Negative)
<b>REVENUES</b>				
Taxes	\$ 1,979,250	\$ 1,979,250	\$ 2,210,555	\$ 231,305
In Lieu Tax Payments	87,000	87,000	50,929	(36,071)
Excess Fees	37,440	66,829	66,829	
Licenses and Permits	9,000	9,000	8,110	(890)
Intergovernmental Revenue	333,590	348,641	390,128	41,487
Charges for Services	25,000	25,000	20,000	(5,000)
Miscellaneous	49,901	58,104	30,475	(27,629)
Interest	2,500	2,500	5,888	3,388
	<u>2,523,681</u>	<u>2,576,324</u>	<u>2,782,914</u>	<u>206,590</u>
<b>EXPENDITURES</b>				
General Government	1,377,574	1,424,584	1,312,754	111,830
Protection to Persons and Property	61,114	60,722	50,273	10,449
General Health and Sanitation	78,551	108,922	106,819	2,103
Social Services	9,400	9,400	8,351	1,049
Recreation and Culture	101,500	115,550	114,910	640
Airports	5,000	5,000	5,000	
Debt Service	364,300	364,981	364,661	320
Capital Projects	10,100	100		100
Administration	580,200	506,123	488,647	17,476
	<u>2,587,739</u>	<u>2,595,382</u>	<u>2,451,415</u>	<u>143,967</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	<u>(64,058)</u>	<u>(19,058)</u>	<u>331,499</u>	<u>350,557</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds			100,000	100,000
Transfers to Other Funds	<u>(553,340)</u>	<u>(553,340)</u>	<u>(733,340)</u>	<u>(180,000)</u>
	<u>(553,340)</u>	<u>(553,340)</u>	<u>(633,340)</u>	<u>(80,000)</u>
Net Changes in Fund Balance	(617,398)	(572,398)	(301,841)	270,557
Fund Balance - Beginning	617,398	617,398	917,935	300,537
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 45,000</u>	<u>\$ 616,094</u>	<u>\$ 571,094</u>

**CALDWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**  
**(Continued)**

	<b>ROAD FUND</b>			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,033,216	\$ 1,280,161	\$ 1,302,422	\$ 22,261
Miscellaneous	1,500	17,277	29,472	12,195
Interest	3,200	3,200	2,319	(881)
Total Revenues	<u>1,037,916</u>	<u>1,300,638</u>	<u>1,334,213</u>	<u>33,575</u>
<b>EXPENDITURES</b>				
Roads	1,246,307	1,527,689	1,359,476	168,213
Administration	206,800	188,140	153,285	34,855
Total Expenditures	<u>1,453,107</u>	<u>1,715,829</u>	<u>1,512,761</u>	<u>203,068</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	<u>(415,191)</u>	<u>(415,191)</u>	<u>(178,548)</u>	<u>236,643</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds			100,000	100,000
Transfers to Other Funds			<u>(100,000)</u>	<u>(100,000)</u>
Total Other Financing Sources (Uses)				
Net Changes in Fund Balance	(415,191)	(415,191)	(178,548)	236,643
Fund Balance - Beginning	<u>415,191</u>	<u>415,191</u>	<u>678,040</u>	<u>262,849</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 499,492</u>	<u>\$ 499,492</u>

**CALDWELL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2010**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Licenses and Permits	\$ 35,000	\$ 57,184	\$ 26,712	\$ (30,472)
Intergovernmental Revenue	331,033	331,033	310,803	(20,230)
Miscellaneous	2,400	2,400	1,938	(462)
Interest	600	600	766	166
	<u>369,033</u>	<u>391,217</u>	<u>340,219</u>	<u>(50,998)</u>
<b>EXPENDITURES</b>				
General Government	29,038	33,486	31,869	1,617
Protection to Persons and Property	134,500	134,500	132,000	2,500
General Health and Sanitation	69,741	93,632	67,997	25,635
Social Services	2,000	2,000	162	1,838
Roads	35,000	35,773	35,773	
Debt Service	12,598	12,598	12,598	
Administration	106,156	99,228	13,820	85,408
	<u>389,033</u>	<u>411,217</u>	<u>294,219</u>	<u>116,998</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>46,000</u>	<u>66,000</u>
Net Changes in Fund Balances	(20,000)	(20,000)	46,000	66,000
Fund Balances - Beginning	<u>20,000</u>	<u>20,000</u>	<u>272,434</u>	<u>252,434</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 318,434</u>	<u>\$ 318,434</u>

**CALDWELL COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2011**

**Note 1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting 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 expenditures 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. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Reconciliation of General Fund**

Total Revenues - Budgetary Basis	\$ 2,782,914
Revenues from Jail and Grant Fund reported within General Fund as a result of the adoption of GASB 54	<u>288,916</u>
Total Revenues - Modified Cash Basis	<u><u>3,071,830</u></u>
Total Expenditures - Budgetary Basis	2,451,415
Hospital bond payments reclassified as transfer out	(167,980)
Expenditures from Jail Fund and Grant Fund reported within General Fund as a result of the adoption of GASB 54	<u>726,120</u>
Total Expenditures - Modified Cash Basis	<u><u>3,009,555</u></u>
Total Other Financing Sources (Uses) - Budgetary Basis	(633,340)
Hospital bond payments reclassified as transfer out	(167,980)
Other Financing Sources (Uses) from Jail Fund and Grant Fund reported within General Fund as a result of the adoption of GASB 54	<u>450,000</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u><u>\$ (351,320)</u></u>

**CALDWELL COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2011**



**CALDWELL COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2011**

	<b>Ambulance Fund</b>	<b>General Obligation Bond Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,366	\$ 5,553	\$ 6,919
Total Assets	<u>1,366</u>	<u>5,553</u>	<u>6,919</u>
<b>FUND BALANCES</b>			
<b>Restricted For:</b>			
Protection to Persons and Property	1,366		1,366
Debt Service		<u>5,553</u>	<u>5,553</u>
Total Fund Balances	<u>\$ 1,366</u>	<u>\$ 5,553</u>	<u>\$ 6,919</u>

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

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**CALDWELL COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2011**



**CALDWELL COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2011**

	<u>Ambulance Fund</u>	<u>General Obligation Bond Fund</u>	<u>Total Non-Major Governmental Funds</u>
<b>REVENUES</b>			
Intergovernmental	\$ 114,838	\$	\$ 114,838
Interest	15	980	995
Total Revenues	<u>114,853</u>	<u>980</u>	<u>115,833</u>
<b>EXPENDITURES</b>			
Protection to Persons and Property	298,178		298,178
Debt Service		93,407	93,407
Total Expenditures	<u>298,178</u>	<u>93,407</u>	<u>391,585</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	<u>(183,325)</u>	<u>(92,427)</u>	<u>(275,752)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers from Other Funds	183,340	167,980	351,320
Equity Contribution - Hospital Taxing District		575,000	575,000
Proceeds from the Issuance of Refunding		1,550,000	1,550,000
Payment to Refunded Bonds Redeemed		(2,195,000)	(2,195,000)
Total Other Financing Sources (Uses)	<u>183,340</u>	<u>97,980</u>	<u>281,320</u>
Net Change in Fund Balances	15	5,553	5,568
Fund Balances - Beginning	<u>1,351</u>		<u>1,351</u>
Fund Balances - Ending	<u>\$ 1,366</u>	<u>\$ 5,553</u>	<u>\$ 6,919</u>

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

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



MICHAEL A. KEM, CPA  
SANDRA D. DUGUID, CPA  
ANNA B. GENTRY, CPA  
WALTER G. CUMMINGS, CPA



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

The Honorable Brock Thomas, Caldwell County Judge/Executive  
Members of the Caldwell County Fiscal Court

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Caldwell County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, listed in the table of contents and have issued our report thereon dated May 25, 2012. Caldwell County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Caldwell County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Caldwell County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Caldwell County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Caldwell County's internal control over financial reporting.

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 significant deficiencies, or material weaknesses, and therefore, there can be no assurance that deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of comments and recommendations, we identified certain deficiencies in internal control over financial reporting 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 statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of comments and recommendations as 2011-01, 2011-02, 2011-03 and 2011-04 to be material weaknesses.

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

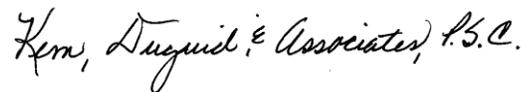
Compliance And Other Matters

As part of obtaining reasonable assurance about whether Caldwell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2011-05.

Management's responses to the finding identified in our audit are included in the accompanying comments and recommendations. We did not audit the response of the County Judge/Executive and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Caldwell County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,



Kem, Duguid & Associates, PSC  
Certified Public Accountants

May 25, 2012

**CALDWELL COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For the Year Ended June 30, 2011**



**CALDWELL COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2011**

INTERNAL CONTROL - MATERIAL WEAKNESSES

2011-01 Lack Of Adequate Internal Controls Over The Collection Of And Accounting For Occupational And Net Profits Taxes

During testing of occupational and net profit taxes, we noted that no occupational tax subsidiary ledger was maintained, there were missing tax returns for three employers, documentation of when tax returns were received is inconsistent, some returns are dated several weeks prior to the date they were stamped received, tax returns are not processed daily, receipts are not deposited daily, delinquent net profit and occupational taxes are not maintained nor are the delinquent taxes collected. The occupational tax administrator maintains all occupational and net profit tax records, prepares deposits, and posts receipts with no one else reviewing tax collections or postings. When the occupational tax administrator is absent, deposits are not made nor are returns processed. We viewed a large amount of unprocessed returns that were left locked in the occupational tax administrator's office. The control deficiency described above is considered to be significant and material.

We recommend tax forms be attached to envelopes received in, occupational tax ledger be maintained and printed at year end, occupational tax payer files should be updated, deposits be made daily, occupational tax returns be processed when received, and collection of delinquent taxes be attempted. Someone independent of the occupational tax office should prepare a mail receipts listing and review daily receipts received. These processes should be reviewed by someone other than the occupational tax administrator and the review should be documented.

*County Judge/Executive Brock Thomas' Response: Issues revised would require change of Occupational Tax Ordinance. Parties will examine changes, if any, to issues reversal.*

*Occupational Tax Administrators Response: See Appendix B.*

2011-02 Lack Of Adequate Segregation Of Duties Over Revenues And Bank Reconciliations And Financial Statement Preparation

During testing we noted that there is a lack of segregation of duties over revenues and bank reconciliations. The treasurer performs all accounting functions over cash and receives, posts, and reconciles revenues as well as prepares the quarterly financial statements. There were no documented compensating controls to offset the lack of segregation of duties or reduce the deficiency to less than significant level. We recommend the fiscal court implement the following compensating internal controls.

1. Have someone independent of the treasurer's office review and re-compute the bank reconciliation. Outstanding items should be reviewed. The review/re-computation should be documented.
2. Have someone independent of the treasurer's office prepare a mail receipts listing.
3. Have someone independent of the treasurer's office compare receipts listing to the daily check out sheets to the receipts ledger to determine all receipts are properly accounted for. The review should be documented.

*County Judge/Executive Brock Thomas' Response: I will work with Treasurer to develop and institute a plan to improve our process.*

**CALDWELL COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2011  
(Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued):

2011-03 The Former Jailer Lacked Adequate Segregation Of Duties Over The Accounting Functions

A lack of segregation of duties existed 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, reconciled the bank account and made payments from the bank account. There were no compensating controls implemented that would offset the lack of segregation of duties. The former Jailer should have segregated duties or implemented the following compensating controls:

- The Jailer should have periodically compared the daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. The Jailer could have documented this by initialing the bank deposit, daily checkout sheet, and receipts ledger for the day checked.
- The Jailer should have compared the monthly, quarterly, and annual financial reports to receipts and disbursements ledgers for accuracy. Any differences should have been reconciled. The Jailer could have documented this by initialing the receipts and disbursements ledgers or denoting the comparison on the financial reports.
- The Jailer should have periodically compared the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled. The Jailer could have documented this by initialing the bank reconciliation and the balance in the checkbook

*County Jailer John Pettit's Response: I will periodically compare these items and initial same. Any differences will be reconciled.*

2011-04 The Jailer Should Have Required Daily Deposits, All Disbursements Be Made By Check, And Inmate Fees Be Remitted To The Treasurer Timely

During testing of Jail Commissary records, we noted deposits were not made daily. Inmates' monies were kept in a lock box and given back to them in the form of cash rather than properly depositing the inmate funds and disbursing the monies by check. Inmate fees were paid to the treasurer in cash. Inmate fees were held and not remitted to the treasurer in a timely manner.

Jail Commissary Fund Instructions issued by the Department for Local Government require daily deposits and all disbursements be made by check as part of the minimum accounting requirements for the Jail Commissary as prescribed by KRS 68.210.

The Jailer should have required receipts be deposited daily and all disbursements be made by check in order to be in compliance with the minimum accounting standards as prescribed by KRS 68.210. The Jailer should have required inmate fees be remitted to the county treasurer by check in a timely manner.

*County Jailer John Pettit's Response: Due to the large number of inmates and insufficient staff, I do receive and return small amounts of money to inmates who may be in jail for an hour or so. Receipts are signed. All deposits are made as soon as possible.*

**CALDWELL COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2011  
(Continued)**

STATE LAWS AND REGULATIONS

2011-05 The County Should Approve A Salary Schedule

The County did not approve and set the salaries for the County employees. KRS 64.530 states the Fiscal Court of each county shall fix the compensation of every County officer and employee. We recommend the County list all employees and each salary or hourly pay rate. The County should also include the starting pay rates for entry-level positions. The County should revise this list as increases are approved by the Fiscal Court.

*County Judge/Executive Brock Thomas' Response: We will examine this matter further and implement appropriate changes if needed.*

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

**CALDWELL COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2011**

Appendix A



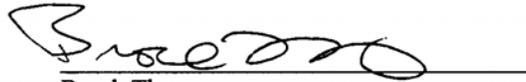
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

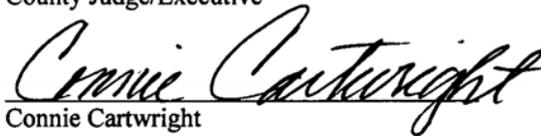
CALDWELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

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.



Brock Thomas  
County Judge/Executive



Connie Cartwright  
County Treasurer



**COMMENTS AND RECOMMENDATIONS  
COMMENT 2011-01 TAX ADMINISTRATOR'S RESPONSE**

**CALDWELL COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2011**

Appendix B



**CALDWELL COUNTY  
COMMENTS AND RECOMMENDATIONS  
COMMENT 2011-01 TAX ADMINISTRATOR'S RESPONSE  
Fiscal Year Ended June 30, 2011**

Date: May 29, 2012

Many changes, as you noted during the conference, have been made upon the recommendation of last year's audit. Last year's audit was conducted in May so the changes made were not reflected in FY 10-11 as there was only one month left in the fiscal year after the audit.

Subsidiary ledger of receipts is maintained by Judge Executive's Administrative Assistant.

A daily log of individual receipts, a daily total of deposits for both withholding and Net Profit is kept separately as well as total deposit for Occupational Tax, a monthly log of all deposits, and a monthly report that is reconciled with the financial statement from the bank statement is also maintained. The monthly report reflects the monthly receipts, as well as the quarterly receipts and the yearly total, as well as a comparison by month, quarter and year of the four preceding years.

Tax Administrator prepares the deposit(s) and then delivers to Judge Executive office for deposit with bank. It was recommended in the audit two years ago that any person preparing a deposit should not be the person delivering that deposit to the bank. This recommendation has been followed for better than two years by the Tax Administrator.

Returns are date stamped and the check number recorded on the form the date the tax administrator receives the form and payment. The date the form is signed by the taxpayer is irrelevant and not part of the process. The ordinance defines the due dates for payment of the withholding and net profit fee. The date the form is signed by the taxpayer is not within the control of the tax administrator.

Occupational Tax is calendar driven. The withholdings are due April 30, July 30, October 30 and January 30 for the respective quarters. Net Profits, for the most part, are due May 15. Net Profits due date is based on fiscal year end of the business. Also, extensions are granted if applied for to the federal government and granted. The county recognizes those extensions as well. One business mentioned as not having all forms did pay Net Profits but had an extension and did not pay until the August, which was in the next fiscal year. This was acceptable as an extension had been granted by the IRS. Not all who pay withholding pay Net Profit and not all that pay Net Profit pay withholdings.

Deposits are made when funds are received. There will not be daily deposits. As stated above, there are due dates applicable for payment of occupational taxes and that does not coincide with daily receipts.

**CALDWELL COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**COMMENT 2011-01 TAX ADMINISTRATOR'S RESPONSE**  
**Fiscal Year Ended June 30, 2011**

Delinquent taxes are collected. They are not made public or discussed as the goal is to collect more than just the delinquent tax and to be able to collect future taxes before they become delinquent. As in the case of the Bremner account when over \$500,000 was collected, it had to be made public as there had to be steps taken by the Fiscal Court for the receipt of the money. As the collection has gone from \$928,000 to \$1,300,000 in eight years and several businesses have been lost to the community, I feel that the method of working with the businesses rather than litigation is working for both the county and the businesses.

Occupational tax is bound by the directives of Ordinance No. 06-24-08. Confidentiality of these payments and returns is of the utmost importance. The ordinance foresaw the scope of this potential problem and includes the provision for the enforcement of a Class B Misdemeanor if the information is not kept confidential. The ordinance allows for the Tax Administrator to discuss any issues regarding the administration thereof with the Judge Executive and/or County Attorney as set forth in Section No. 11 (4) of the ordinance. I do not understand how that confidentiality can be maintained if the number of people involved increases. If the office is open to other people in my absence for illness or vacation, that leaves all records open and is not conducive for confidentiality.

  
\_\_\_\_\_  
Janie Kirk, Tax Administrator

HAVE SEEN:

  
\_\_\_\_\_  
Brock Thomas, Judge Executive

