

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

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Harold Stilts, Metcalfe County Judge/Executive
The Honorable Greg Wilson, Former Metcalfe County Judge/Executive
Members of the Metcalfe County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Metcalfe County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Metcalfe County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

As described in Note 1 of the financial statement, the financial statement is prepared by the Metcalfe 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 Metcalfe County Fiscal Court as of June 30, 2018, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Metcalfe County Fiscal Court as of June 30, 2018, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Metcalfe 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2020, on our consideration of the Metcalfe 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 Metcalfe County Fiscal Court's internal control over financial reporting and compliance.

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

- 2018-001 The Metcalfe County Fiscal Court Schedule Of Expenditures Of Federal Awards Was Not Accurate
- 2018-002 The Metcalfe County Fiscal Court Lacks Adequate Controls Over Grant Reporting To Ensure Compliance With Grant Requirements
- 2018-003 The Metcalfe County Fiscal Court Lacks Proper Controls Over Disbursements, Leading To Instances Where The County Received Reimbursement Twice For The Same Work
- 2018-004 The Metcalfe County Fiscal Court Paid Contractors More Than Contracted Amounts And Did Not Have Documented Change Orders

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

January 28, 2020

METCALFE COUNTY OFFICIALS

For The Year Ended June 30, 2018

Fiscal Court Members:

Greg Wilson	County Judge/Executive
Scotty Mosby	Magistrate
Teresa Hamlett	Magistrate
Moe Hensley	Magistrate
Kenny Scott	Magistrate

Other Elected Officials:

Barry Gilley	County Attorney
Jimmy Shive	Jailer
Carol E. Chaney	County Clerk
Tommy Garrett	Circuit Court Clerk
Rondal Shirley	Sheriff
Michael Welsh	Property Valuation Administrator
Larry Wilson	Coroner

Appointed Personnel:

Vickie Stephens	County Treasurer
Lorrie Boston	Deputy Judge/Executive

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

For The Year Ended June 30, 2018

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

For The Year Ended June 30, 2018

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 1,215,103	\$	\$
In Lieu Tax Payments	175,156		
Excess Fees	108,729		
Licenses and Permits	5,870		
Intergovernmental	157,070	1,591,950	84,413
Miscellaneous	242,700	502	
Interest	2,460	3,813	221
Total Receipts	<u>1,907,088</u>	<u>1,596,265</u>	<u>84,634</u>
DISBURSEMENTS			
General Government	856,919		
Protection to Persons and Property	150,590		226,451
General Health and Sanitation	202,620	11,323	
Social Services	2,000		
Recreation and Culture	3,779		
Roads		1,423,282	
Debt Service	228,272	35,255	
Capital Projects			
Administration	622,823	119,080	19,104
Total Disbursements	<u>2,067,003</u>	<u>1,588,940</u>	<u>245,555</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(159,915)</u>	<u>7,325</u>	<u>(160,921)</u>
Other Adjustments to Cash (Uses)			
General Obligation Lease Proceeds			
Discount On Lease			
Transfers From Other Funds	202,500	248,044	161,575
Transfers To Other Funds	<u>(233,648)</u>	<u>(202,500)</u>	
Total Other Adjustments to Cash (Uses)	<u>(31,148)</u>	<u>45,544</u>	<u>161,575</u>
Net Change in Fund Balance	(191,063)	52,869	654
Fund Balance - Beginning (Restated)	<u>917,350</u>	<u>411,546</u>	<u>56,615</u>
Fund Balance - Ending	<u>\$ 726,287</u>	<u>\$ 464,415</u>	<u>\$ 57,269</u>
Composition of Fund Balance			
Bank Balance	\$ 744,067	\$ 674,112	\$ 57,269
Less: Outstanding Checks	(17,780)	(209,697)	
Certificates of Deposit			
Fund Balance - Ending	<u>\$ 726,287</u>	<u>\$ 464,415</u>	<u>\$ 57,269</u>

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

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

Budgeted Funds						
Local Government Economic Assistance Fund	State Grants Fund	Federal Grants Fund	Disaster Emergency Services Fund	Ambulance Fund	Courthouse Construction Fund	Spay and Neuter Fund
\$	\$	\$	\$	\$ 233,287	\$	\$
6,428	29,231	86,258	42,767	15,115		
32	469	1,719	115	6,699	10,503	2
<u>6,460</u>	<u>29,700</u>	<u>87,977</u>	<u>42,882</u>	<u>255,101</u>	<u>10,503</u>	<u>2</u>
19,637				15,730		
	66,622	127,740	80,213	139,930		
2,875						
		64,010			1,620,329	
4,577			21,110			
<u>27,089</u>	<u>66,622</u>	<u>191,750</u>	<u>101,323</u>	<u>155,660</u>	<u>1,620,329</u>	
<u>(20,629)</u>	<u>(36,922)</u>	<u>(103,773)</u>	<u>(58,441)</u>	<u>99,441</u>	<u>(1,609,826)</u>	<u>2</u>
					2,325,000	
					(56,500)	
10,000			60,000	2,073		
<u>10,000</u>			<u>60,000</u>	<u>2,073</u>	<u>2,268,500</u>	
(10,629)	(36,922)	(103,773)	1,559	101,514	658,674	2
16,236	159,973	457,808	30,905	1,259,439		1,007
<u>\$ 5,607</u>	<u>\$ 123,051</u>	<u>\$ 354,035</u>	<u>\$ 32,464</u>	<u>\$ 1,360,953</u>	<u>\$ 658,674</u>	<u>\$ 1,009</u>
\$ 5,607	\$ 123,147 (96)	\$ 354,035	\$ 32,464	\$ 984,711	\$ 658,674	\$ 1,009
				376,242		
<u>\$ 5,607</u>	<u>\$ 123,051</u>	<u>\$ 354,035</u>	<u>\$ 32,464</u>	<u>\$ 1,360,953</u>	<u>\$ 658,674</u>	<u>\$ 1,009</u>

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

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

	<u>Budgeted Funds</u>		<u>Unbudgeted Fund</u>	<u>Total Funds</u>
	<u>Homeland Security Fund</u>	<u>Road Aid Emergency Fund</u>	<u>Public Properties Corporation Fund</u>	
RECEIPTS				
Taxes	\$	\$	\$	\$ 1,448,390
In Lieu Tax Payments				175,156
Excess Fees				108,729
Licenses and Permits				5,870
Intergovernmental			400,313	2,413,545
Miscellaneous				243,202
Interest	3	904		26,940
Total Receipts	<u>3</u>	<u>904</u>	<u>400,313</u>	<u>4,421,832</u>
DISBURSEMENTS				
General Government				892,286
Protection to Persons and Property				724,924
General Health and Sanitation				280,565
Social Services				4,875
Recreation and Culture				3,779
Roads				1,423,282
Debt Service			400,313	663,840
Capital Projects				1,684,339
Administration				786,694
Total Disbursements			<u>400,313</u>	<u>6,464,584</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>3</u>	<u>904</u>		<u>(2,042,752)</u>
Other Adjustments to Cash (Uses)				
General Obligation Lease Proceeds				2,325,000
Discount On Lease				(56,500)
Transfers From Other Funds				684,192
Transfers To Other Funds		(248,044)		(684,192)
Total Other Adjustments to Cash (Uses)		<u>(248,044)</u>		<u>2,268,500</u>
Net Change in Fund Balance	3	(247,140)		225,748
Fund Balance - Beginning (Restated)	<u>1,216</u>	<u>247,140</u>	<u>50</u>	<u>3,559,285</u>
Fund Balance - Ending	<u>\$ 1,219</u>	<u>\$ 0</u>	<u>\$ 50</u>	<u>\$ 3,785,033</u>
Composition of Fund Balance				
Bank Balance	\$ 1,219	\$	\$ 50	\$ 3,636,364
Less: Outstanding Checks				(227,573)
Certificates of Deposit				376,242
Fund Balance - Ending	<u>\$ 1,219</u>	<u>\$ 0</u>	<u>\$ 50</u>	<u>\$ 3,785,033</u>

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

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TO THE FINANCIAL STATEMENT**

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**METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

Metcalfe County Health Services, Inc., would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However, under the regulatory basis they are no longer are required components of the reporting entity. Audits of the Metcalfe County Health Services, Inc., can be obtained from the Metcalfe County Fiscal Court at 201 North Main Street, P.O. Box 149, Edmonton, KY 42129.

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

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

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

State Grants Fund - The primary purpose of this fund is to account for state grants and related disbursements.

Federal Grants Fund - The primary purpose of this fund is to account for federal grants and related disbursements.

Disaster Emergency Services Fund - The primary purpose of this fund is to account for receipts and disbursements related to DES services.

Ambulance Fund - The primary purpose of this fund is to account for receipts and disbursements related to providing ambulance services in the county.

Parks and Recreation Fund - The primary purpose of this fund was to account for receipts and disbursements related to the county park. The fund had no activity and is now being accounted for in the general fund.

Courthouse Construction Fund - The primary purpose of this fund was to account for construction cost related to the new Metcalfe County Government Center.

Courthouse Renovation Fund - The primary purpose of this fund was to account for an anticipated grant to renovate the old courthouse. The fund had no activity in this fiscal year.

Spay and Neuter Fund - The primary purpose of this fund is to account for receipts and disbursements associated with the services provided.

Homeland Security Fund - The primary purpose of this fund is to account for receipts and disbursements associated with homeland security.

Road Aid Emergency Fund - The primary purpose of this fund is to account for funds that are being held in case of road related emergencies.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Unbudgeted Fund

The fiscal court reports the following unbudgeted fund:

Public Properties Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service requirements of revenue bonds that were issued for the Metcalfe County Justice Center. The Department for Local Government does not require the fiscal court to budget this fund.

D. Budgetary Information

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

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

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

The state local finance officer does not require the public properties corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Metcalfe County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Metcalfe 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 Metcalfe County Fiscal Court.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

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

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

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

H. 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 on this criteria, the following are considered joint ventures of the Metcalfe Fiscal Court: Edmonton-Metcalfe County Industrial Development Authority, Ambulance Service Corporation Inc., Barren Metcalfe Emergency Communications Center, and Edmonton Metcalfe 911 Board.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

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

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

Note 3. Transfers

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

	General Fund	Road Fund	Road Aid Emergency Fund	Total Transfers In
General Fund	\$	\$ 202,500	\$	\$ 202,500
Road Fund			248,044	248,044
Jail Fund	161,575			161,575
LGEA Fund	10,000			10,000
Disaster Emergency Services Fund	60,000			60,000
Ambulance Fund	2,073			2,073
Total Transfers Out	<u>\$ 233,648</u>	<u>\$ 202,500</u>	<u>\$ 248,044</u>	<u>\$ 684,192</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.

Note 4. Long Term Debt

A. Revenue Bonds - First Mortgage Refunding Revenue Bonds, Series 2010

The Metcalfe County Public Properties Corporation (PPC), an agency and instrumentality of the Metcalfe County Fiscal Court (fiscal court), issued obligations of \$4,180,000, dated September 29, 2010. The principal is payable in 13 annual installments beginning April 1, 2011, and interest is payable semiannually on April 1 and October 1 of each year at varying rates. The bonds were issued for the purpose of advance refunding the Metcalfe Public Properties Corporation First Mortgage Revenue Bonds, Series 2001, in the original amount of \$4,850,000 and Metcalfe County Public Properties Corporation First Mortgage Revenue Bonds, Series 2001B, in the original amount of \$400,000, which were issued for the purpose of the construction and equipping of a courthouse facility. The PPC entered into an agreement to lease the Metcalfe County Courthouse Facility to the fiscal court for the amount of the bond payments. The fiscal court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Metcalfe County Courthouse Facility. As of June 30, 2018, bonds outstanding were \$1,825,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 345,000	\$ 56,100
2020	355,000	45,750
2021	360,000	35,100
2022	375,000	24,300
2023	390,000	12,675
Totals	<u>\$ 1,825,000</u>	<u>\$ 173,925</u>

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

Note 4. Long-term Debt (Continued)

B. General Obligation Lease - Metcalfe County Government Center

On August 9, 2017, the Metcalfe County Fiscal Court entered into a general obligation lease agreement with Kentucky Association Of Counties Finance Corporation using Financing Program Revenue Bonds, 2017 Series B, for the acquisition, construction, installation, and equipping of a county administration building. The principal amount of the lease was \$2,325,000. The agreement requires annual principal and semiannually interest payments at a rate of 3.37% for a period of twenty-four years. As of June 30, 2018, principal balance was \$2,295,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 65,000	\$ 73,280
2020	65,000	70,680
2021	70,000	68,080
2022	75,000	65,280
2023	75,000	62,280
2024-2028	410,000	269,487
2029-2033	470,000	209,263
2034-2038	550,000	133,694
2039-2042	515,000	39,557
Totals	<u>\$ 2,295,000</u>	<u>\$ 991,601</u>

C. Financing Obligation - Enrichment Center

On March 1, 2002, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the construction of the Metcalfe County Enrichment Center. The principal amount of the lease was \$250,000. The agreement requires monthly principal and interest payments at various interest rates for a period of twenty years. As of June 30, 2018, principal balance outstanding was \$62,750. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 15,351	\$ 3,544
2020	16,320	2,560
2021	17,351	1,507
2022	13,728	403
Totals	<u>\$ 62,750</u>	<u>\$ 8,014</u>

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

Note 4. Long-term Debt (Continued)

D. Financing Obligation - Enrichment Center - Land and Building

On February 13, 2004, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the acquisition of land and additional building for the Metcalfe County Enrichment Center Project. The principal amount of the lease was \$162,000. The agreement requires annual principal and monthly interest payments at a rate of 3.88% for a period of fifteen years. As of June 30, 2018, principal balance outstanding was \$62,243. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 9,400	\$ 2,643
2020	9,770	2,204
2021	10,154	1,739
2022	10,553	1,265
2023	10,967	769
2024	11,399	61
Totals	<u>\$ 62,243</u>	<u>\$ 8,681</u>

E. Financing Obligation - Nursing Home

On November 24, 2004, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the renovation of the Metcalfe County Nursing Home on behalf of the Metcalfe County Health Services, Inc. DBA Metcalfe Health Care Center, a component unit of the Fiscal Court (see Note 1.A.). The agreement is that Metcalfe County Health Services, Inc. will make principal and interest payments to the fiscal court until paid in full. The principal amount of the lease was \$1,000,000. The agreement requires annual principal and monthly interest payments at a variable interest rate for a period of twenty years. As of June 30, 2018, principal balance outstanding was \$430,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 55,000	\$ 23,850
2020	60,000	20,150
2021	60,000	16,369
2022	65,000	12,344
2023	65,000	8,281
2024-2025	125,000	4,238
Totals	<u>\$ 430,000</u>	<u>\$ 85,232</u>

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

Note 4. Long-term Debt (Continued)

F. Financing Obligation - Backhoe

On July 16, 2014, the Metcalfe County Fiscal Court entered into a lease agreement for the purchase of a backhoe. The principal amount of the lease was \$58,510. The agreement requires annual principal and interest payment at a variable interest rate for a period of three years. As of June 30, 2018, this lease has been paid off.

G. Financing Obligation - Road Trucks

On October 20, 2015, the Metcalfe County Fiscal Court entered into a loan agreement with a local bank for the purchase of three road trucks. The principal amount of the lease was \$74,281. The agreement requires annual principal and interest payment at a rate of 2.49% for a period of four years. As of June 30, 2018, principal balance was \$38,054. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 18,793	\$ 948
2020	19,261	480
Totals	<u>\$ 38,054</u>	<u>\$ 1,428</u>

H. Financing Obligation - Sheriff Department Vehicles

On October 20, 2015, the Metcalfe County Fiscal Court entered into a loan agreement with a local bank for the purchase of three sheriff department vehicles. The principal amount of the lease was \$98,963. The agreement requires monthly principal and interest payment at a rate of 2.49% for a period of four years. As of June 30, 2018, principal balance was \$34,087. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 25,459	\$ 560
2020	8,628	45
Totals	<u>\$ 34,087</u>	<u>\$ 605</u>

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

Note 4. Long-term Debt (Continued)

I. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 2,160,000	\$	\$ 335,000	\$ 1,825,000	\$ 345,000
General Obligation Lease Financing Obligations	763,595	2,325,000	30,000	2,295,000	65,000
	<u>763,595</u>	<u>2,325,000</u>	<u>136,461</u>	<u>627,134</u>	<u>124,004</u>
Total Long-term Debt	<u>\$ 2,923,595</u>	<u>\$ 2,325,000</u>	<u>\$ 501,461</u>	<u>\$ 4,747,134</u>	<u>\$ 534,004</u>

Note 5. Commitment Debt

A. Industrial Development Authority Building

On September 22, 2015, the county adopted a resolution authorizing guarantee indebtedness of Edmonton-Metcalf Industrial Development Authority for construction of a spec building. On June 2, 2016, the county committed to \$350,000 of a \$1,000,304 construction loan agreement with a local bank as the guarantor in conjunction with the Edmonton-Metcalf County Industrial Authority. During fiscal year 2018, the county paid \$8,066 in interest and closing cost on the construction loan. The outstanding principal balance as of June 30, 2018, on the construction loan was \$742,421. This loan was closed on July 6, 2018.

The Edmonton-Metcalf Industrial Development Authority refinanced the outstanding debt with a local bank on June 26, 2018, for \$417,421 for a period of three years along with refinancing through the Tennessee Valley Authority on June 5, 2018, for \$325,000 for a period of fifteen years. The Metcalf County Fiscal Court along with the City of Edmonton are both committed to these obligations. The fiscal court's obligation for these payments does not start until fiscal year 2019. The outstanding principal balance as of June 30, 2018, for the county was \$208,711 with the local bank and \$162,500 with the Tennessee Valley Authority.

B. Waterlines

On February 3, 2014, the Metcalf County Fiscal Court entered into an inter-local agreement with the City of Edmonton, KY, for repayment of Kentucky Infrastructure Authority Loan associated with waterline expansion in the county. The effective date of the loan from the Kentucky Infrastructure Authority was October 23, 2014. The principal amount of the loan was \$174,907. The agreement requires the City of Edmonton to provide semi-annual payments of principal, interest, and fees at a fixed interest rate for a period of ten years. The inter-local agreement requires the fiscal court to provide the debt service payments to repay this loan acquired by the City of Edmonton. The fiscal court's obligation shall continue until the Kentucky Infrastructure Authority loan has been paid in full. The fiscal court agrees to reserve sufficient funds each year in its annual budget to provide for such payments. The fiscal court's obligation for fiscal year 2018 was \$18,426. The outstanding principal balance as of June 30, 2018 was \$106,511.

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

Note 6. Employee Retirement System

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2016 was \$199,713, FY 2017 was \$207,781, and FY 2018 was \$221,955.

Nonhazardous

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

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

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

The county's contribution rate for nonhazardous employees was 19.18 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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

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

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

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

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

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

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

C. Cost of Living Adjustments - Tier 1

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

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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

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

E. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

Note 7. Deferred Compensation

The Metcalfe County Fiscal Court voted on March 12, 2013 to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

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

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Personnel Cabinet, Kentucky Deferred Compensation, 501 High Street, 2nd Floor, Frankfort, KY 40601, or by telephone at (502) 573-7925.

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

Note 8. Insurance

For the fiscal year ended June 30, 2018, the Metcalfe County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustment

The beginning fund balance for the jail fund and the disaster emergency services fund have been restated by (\$1) and \$1, respectively due to rounding issues during reporting.

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,277,575	\$ 1,277,575	\$ 1,215,103	\$ (62,472)
In Lieu Tax Payments	200,000	200,000	175,156	(24,844)
Excess Fees	88,925	88,925	108,729	19,804
Licenses and Permits	7,300	7,300	5,870	(1,430)
Intergovernmental	160,800	160,800	157,070	(3,730)
Miscellaneous	191,100	192,500	242,700	50,200
Interest	2,000	2,000	2,460	460
Total Receipts	<u>1,927,700</u>	<u>1,929,100</u>	<u>1,907,088</u>	<u>(22,012)</u>
DISBURSEMENTS				
General Government	1,110,879	1,150,351	856,919	293,432
Protection to Persons and Property	217,000	217,914	150,590	67,324
General Health and Sanitation	222,618	223,175	202,620	20,555
Social Services	12,100	12,100	2,000	10,100
Recreation and Culture	1,500	9,188	3,779	5,409
Debt Service	380,000	380,000	228,272	151,728
Capital Projects	3,350,000	3,350,000		3,350,000
Administration	756,503	876,622	622,823	253,799
Total Disbursements	<u>6,050,600</u>	<u>6,219,350</u>	<u>2,067,003</u>	<u>4,152,347</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(4,122,900)</u>	<u>(4,290,250)</u>	<u>(159,915)</u>	<u>4,130,335</u>
Other Adjustments to Cash (Uses)				
Bond Sale Proceeds	3,000,000	3,000,000		(3,000,000)
Transfers From Other Funds	202,500	202,500	202,500	
Transfers To Other Funds	(179,600)	(179,600)	(233,648)	(54,048)
Lease Proceeds	350,000	350,000		(350,000)
Total Other Adjustments to Cash (Uses)	<u>3,372,900</u>	<u>3,372,900</u>	<u>(31,148)</u>	<u>(3,404,048)</u>
Net Change in Fund Balance	(750,000)	(917,350)	(191,063)	726,287
Fund Balance - Beginning	<u>750,000</u>	<u>917,350</u>	<u>917,350</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 726,287</u>	<u>\$ 726,287</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,452,070	\$ 1,470,348	\$ 1,591,950	\$ 121,602
Miscellaneous	21,700	21,700	502	(21,198)
Interest	3,500	3,500	3,813	313
Total Receipts	<u>1,477,270</u>	<u>1,495,548</u>	<u>1,596,265</u>	<u>100,717</u>
DISBURSEMENTS				
General Government	100	100		100
General Health and Sanitation	19,000	20,017	11,323	8,694
Roads	1,305,906	1,535,242	1,423,282	111,960
Debt Service	37,500	37,500	35,255	2,245
Administration	312,264	359,779	119,080	240,699
Total Disbursements	<u>1,674,770</u>	<u>1,952,638</u>	<u>1,588,940</u>	<u>363,698</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(197,500)</u>	<u>(457,090)</u>	<u>7,325</u>	<u>464,415</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			248,044	248,044
Transfers To Other Funds	<u>(202,500)</u>	<u>(202,500)</u>	<u>(202,500)</u>	
Total Other Adjustments to Cash (Uses)	<u>(202,500)</u>	<u>(202,500)</u>	<u>45,544</u>	<u>248,044</u>
Net Change in Fund Balance	(400,000)	(659,590)	52,869	712,459
Fund Balance - Beginning	<u>400,000</u>	<u>411,546</u>	<u>411,546</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (248,044)</u>	<u>\$ 464,415</u>	<u>\$ 712,459</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 94,000	\$ 94,000	\$ 84,413	\$ (9,587)
Miscellaneous	700	700		(700)
Interest	200	200	221	21
Total Receipts	<u>94,900</u>	<u>94,900</u>	<u>84,634</u>	<u>(10,266)</u>
DISBURSEMENTS				
Protection to Persons and Property	180,035	239,785	226,451	13,334
Administration	24,465	21,330	19,104	2,226
Total Disbursements	<u>204,500</u>	<u>261,115</u>	<u>245,555</u>	<u>15,560</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(109,600)</u>	<u>(166,215)</u>	<u>(160,921)</u>	<u>5,294</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	109,600	109,600	161,575	51,975
Total Other Adjustments to Cash (Uses)	<u>109,600</u>	<u>109,600</u>	<u>161,575</u>	<u>51,975</u>
Net Change in Fund Balance		(56,615)	654	57,269
Fund Balance - Beginning		<u>56,615</u>	<u>56,615</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 57,269</u>	<u>\$ 57,269</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 12,000	\$ 12,000	\$ 6,428	\$ (5,572)
Interest	100	100	32	(68)
Total Receipts	<u>12,100</u>	<u>12,100</u>	<u>6,460</u>	<u>(5,640)</u>
DISBURSEMENTS				
General Government	25,341	25,341	19,637	5,704
Social Services	4,000	4,000	2,875	1,125
Administration	12,759	12,759	4,577	8,182
Total Disbursements	<u>42,100</u>	<u>42,100</u>	<u>27,089</u>	<u>15,011</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(30,000)</u>	<u>(30,000)</u>	<u>(20,629)</u>	<u>9,371</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	10,000	10,000	10,000	
Total Other Adjustments to Cash (Uses)	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	
Net Change in Fund Balance	(20,000)	(20,000)	(10,629)	9,371
Fund Balance - Beginning	<u>20,000</u>	<u>20,000</u>	<u>16,236</u>	<u>(3,764)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,607</u>	<u>\$ 5,607</u>

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

	STATE GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 146,700	\$ 146,700	\$ 29,231	\$ (117,469)
Interest	300	300	469	169
Total Receipts	<u>147,000</u>	<u>147,000</u>	<u>29,700</u>	<u>(117,300)</u>
DISBURSEMENTS				
General Health and Sanitation	146,700	151,700	66,622	85,078
Administration	50,300	155,273		155,273
Total Disbursements	<u>197,000</u>	<u>306,973</u>	<u>66,622</u>	<u>240,351</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(50,000)</u>	<u>(159,973)</u>	<u>(36,922)</u>	<u>123,051</u>
Net Change in Fund Balance	(50,000)	(159,973)	(36,922)	123,051
Fund Balance - Beginning	<u>50,000</u>	<u>159,973</u>	<u>159,973</u>	<u></u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 123,051</u>	<u>\$ 123,051</u>

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

	FEDERAL GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 820,000	\$ 820,000	\$ 86,258	\$ (733,742)
Interest	500	500	1,719	1,219
Total Receipts	<u>820,500</u>	<u>820,500</u>	<u>87,977</u>	<u>(732,523)</u>
DISBURSEMENTS				
Protection to Persons and Property	500,000	504,442	127,740	376,702
Capital Projects	320,000	320,000	64,010	255,990
Administration	150,500	453,866		453,866
Total Disbursements	<u>970,500</u>	<u>1,278,308</u>	<u>191,750</u>	<u>1,086,558</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(150,000)</u>	<u>(457,808)</u>	<u>(103,773)</u>	<u>354,035</u>
Net Change in Fund Balance	(150,000)	(457,808)	(103,773)	354,035
Fund Balance - Beginning	<u>150,000</u>	<u>457,808</u>	<u>457,808</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 354,035</u>	<u>\$ 354,035</u>

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

DISASTER EMERGENCY SERVICES FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 62,100	\$ 62,100	\$ 42,767	\$ (19,333)
Interest	200	200	115	(85)
Total Receipts	<u>62,300</u>	<u>62,300</u>	<u>42,882</u>	<u>(19,418)</u>
DISBURSEMENTS				
Protection to Persons and Property	67,076	90,111	80,213	9,898
Administration	65,224	63,093	21,110	41,983
Total Disbursements	<u>132,300</u>	<u>153,204</u>	<u>101,323</u>	<u>51,881</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(70,000)</u>	<u>(90,904)</u>	<u>(58,441)</u>	<u>32,463</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	60,000	60,000	60,000	
Total Other Adjustments to Cash (Uses)	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	
Net Change in Fund Balance	(10,000)	(30,904)	1,559	32,463
Fund Balance - Beginning	<u>10,000</u>	<u>30,904</u>	<u>30,905</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 32,464</u>	<u>\$ 32,464</u>

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

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 240,000	\$ 240,000	\$ 233,287	\$ (6,713)
Licenses and Permits	100	100		(100)
Intergovernmental	14,000	14,000	15,115	1,115
Miscellaneous	100	100		(100)
Interest	5,500	5,500	6,699	1,199
Total Receipts	<u>259,700</u>	<u>259,700</u>	<u>255,101</u>	<u>(4,599)</u>
DISBURSEMENTS				
General Government	5,000	15,730	15,730	
Protection to Persons and Property	160,500	160,500	139,930	20,570
Administration	1,094,200	1,342,908		1,342,908
Total Disbursements	<u>1,259,700</u>	<u>1,519,138</u>	<u>155,660</u>	<u>1,363,478</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,000,000)</u>	<u>(1,259,438)</u>	<u>99,441</u>	<u>1,358,879</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			2,073	2,073
Total Other Adjustments to Cash (Uses)			<u>2,073</u>	<u>2,073</u>
Net Change in Fund Balance	(1,000,000)	(1,259,438)	101,514	1,360,952
Fund Balance - Beginning	<u>1,000,000</u>	<u>1,259,438</u>	<u>1,259,439</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,360,953</u>	<u>\$ 1,360,953</u>

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

COURTHOUSE CONSTRUCTION FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$	\$	\$ 10,503	\$ 10,503
Total Receipts			10,503	10,503
DISBURSEMENTS				
Capital Projects		2,500,000	1,620,329	879,671
Total Disbursements		2,500,000	1,620,329	879,671
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(2,500,000)	(1,609,826)	890,174
Other Adjustments to Cash (Uses)				
General Obligation Lease Proceeds		2,500,000	2,325,000	(175,000)
Discount On Lease			(56,500)	(56,500)
Total Other Adjustments to Cash (Uses)		2,500,000	2,268,500	(231,500)
Net Change in Fund Balance			658,674	658,674
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$ 658,674	\$ 658,674

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

SPAY AND NEUTER FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 5,000	\$ 5,000	\$	\$ (5,000)
Interest	20	20	2	(18)
Total Receipts	<u>5,020</u>	<u>5,020</u>	<u>2</u>	<u>(5,018)</u>
DISBURSEMENTS				
General Health and Sanitation	5,000	5,000		5,000
Administration	1,020	1,027		1,027
Total Disbursements	<u>6,020</u>	<u>6,027</u>		<u>6,027</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,000)</u>	<u>(1,007)</u>	<u>2</u>	<u>1,009</u>
Net Change in Fund Balance	(1,000)	(1,007)	2	1,009
Fund Balance - Beginning	<u>1,000</u>	<u>1,007</u>	<u>1,007</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,009</u>	<u>\$ 1,009</u>

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

HOMELAND SECURITY FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 10,000	\$ 10,000	\$	\$ (10,000)
Interest	100	100	3	(97)
Total Receipts	<u>10,100</u>	<u>10,100</u>	<u>3</u>	<u>(10,097)</u>
DISBURSEMENTS				
Protection to Persons and Property	10,000	10,000		10,000
Administration	1,100	1,316		1,316
Total Disbursements	<u>11,100</u>	<u>11,316</u>		<u>11,316</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,000)</u>	<u>(1,216)</u>	<u>3</u>	<u>1,219</u>
Net Change in Fund Balance	(1,000)	(1,216)	3	1,219
Fund Balance - Beginning	<u>1,000</u>	<u>1,216</u>	<u>1,216</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,219</u>	<u>\$ 1,219</u>

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

	ROAD AID EMERGENCY FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 1,000	\$ 1,000	\$ 904	\$ (96)
Total Receipts	<u>1,000</u>	<u>1,000</u>	<u>904</u>	<u>(96)</u>
DISBURSEMENTS				
Roads	100,000			
Administration	148,000	96		96
Total Disbursements	<u>248,000</u>	<u>96</u>		<u>96</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(247,000)</u>	<u>904</u>	<u>904</u>	
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(248,044)	(248,044)
Total Other Adjustments to Cash (Uses)			<u>(248,044)</u>	<u>(248,044)</u>
Net Change in Fund Balance	(247,000)	904	(247,140)	(248,044)
Fund Balance - Beginning	<u>247,000</u>	<u>247,140</u>	<u>247,140</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 248,044</u>	<u>\$ 0</u>	<u>\$ (248,044)</u>

METCALFE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2018

Note 1. Budgetary Information

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

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

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

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

For The Year Ended June 30, 2018

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METCALFE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	* Restated Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land and Land Improvements *	\$ 761,203	\$ 48,328	\$	\$ 809,531
Construction In Progress		1,620,329		1,620,329
Buildings and Building Improvements *	9,937,881			9,937,881
Machinery and Equipment	1,837,625	53,082		1,890,707
Vehicle	741,695	19,995		761,690
Infrastructure	<u>5,956,945</u>	<u>682,861</u>	<u> </u>	<u>6,639,806</u>
 Total Capital Assets	 <u>\$ 19,235,349</u>	 <u>\$ 2,424,595</u>	 <u>\$ 0</u>	 <u>\$21,659,944</u>

**METCALFE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS**

June 30, 2018

Note 1. Capital Assets

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

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

Note 2. Restated Beginning Balance

The beginning balance for land and land improvements has been restated and increased by \$202,178 to add \$130,000 for land shown as building in error in the prior year and to include \$72,178 of demolition costs on the new government center land that was not included in the prior year.

The beginning balance for buildings and building improvements has been restated by (\$130,000) to remove land shown as building in error in prior year.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harold Stilts, Metcalfe County Judge/Executive
The Honorable Greg Wilson, Former Metcalfe County Judge/Executive
Members of the Metcalfe 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 Metcalfe County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Metcalfe County Fiscal Court's financial statement and have issued our report thereon dated January 28, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Metcalfe 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 Metcalfe County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Metcalfe County Fiscal Court's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-002, 2018-003, and 2018-004 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 Metcalfe 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 Schedule of Findings and Responses as items 2018-001, 2018-002, 2018-003, and 2018-004.

Views of Responsible Official and Planned Corrective Action

Metcalfe County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

January 28, 2020

**METCALFE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**METCALFE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Metcalfe County Fiscal Court Schedule Of Expenditures Of Federal Awards Was Not Accurate

The Metcalfe County schedule of expenditures of federal awards (SEFA) did not accurately report federal grant disbursements for the fiscal year ended June 30, 2018. According to the fiscal year 2018 SEFA prepared by the county treasurer, the Metcalfe County Fiscal Court expended \$204,214 in federal funds. However, material discrepancies were found that indicated the county used more federal funds than reported.

The county treasurer tracks federal grant activity receipts and disbursements to prepare the SEFA each fiscal year based on her records and information provided from the road department. The emergency management director, who is the appointed U.S. Federal Emergency Management Agency (FEMA) applicant agent for the Metcalfe County Fiscal Court, is responsible for providing to the state and to FEMA all federal disaster assistance. This includes reporting and updating project worksheets and their status. There is no coordination between the county treasurer and the emergency management director related to the federal expenditures being reported to ensure they are all included on the SEFA.

While comparing the county treasurer's records for fiscal year 2018 to the emergency management director's records, it was discovered force account labor and equipment used on FEMA approved disaster work performed by the county was not included as federal expenditures on the SEFA. In addition, two FEMA disasters were not included on the SEFA for fiscal year 2018 at all and incurred project costs during the year as noted on supporting documentation.

Furthermore, while tracing records from the county treasurer's disbursements to the emergency management director's claimed costs on another FEMA disaster, a variance of \$219,799 existed as noted in finding 2018-002. The county treasurer reported disbursements of \$68,227 and the emergency management director reported disbursements of \$288,026 on his final project completion and certification report (P4) form for the amount claimed by applicant. In addition, \$101,600 in checks written were not included on the SEFA by the county treasurer because they were Kentucky Transportation Cabinet projects; however, we noted at least two of these projects were also FEMA projects.

A lack of communication between the county treasurer and emergency management department led to these significant variances in reporting. According to the county treasurer, she is not always aware when FEMA projects are approved and does not always receive project worksheet details. Furthermore, she was not aware force account labor and equipment charges should be included on the SEFA as federal expenditures. According to the emergency management director, he does not always know what is being reported by the county treasurer from her records for the SEFA.

The fiscal court is not in compliance with reporting requirements for federal awards. The total disbursements reported on the SEFA is the determination factor for whether an entity is required to undergo a single audit in accordance with Uniform Guidance if the entity expends \$750,000 or more in federal funds during its fiscal year.

According to the fiscal year 2017 SEFA prepared by the county treasurer, the Metcalfe County Fiscal Court received \$1,050,142 in receipts, \$913,771 of this amount was the federal share, and the county expended federal costs of \$682,930. The Metcalfe County Fiscal Court could have missed the requirement to undergo a single audit if all federal expenditures were also not reported accurately in fiscal year 2017. Additionally, the total amount of errors identified in fiscal year 2018 could not be readily determined due to the incomplete reporting of certain types of costs and certain projects.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-001 The Metcalfe County Fiscal Court Schedule Of Expenditures Of Federal Awards Was Not Accurate
(Continued)

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires the county treasurer to prepare a schedule of expenditures of federal awards and submit this schedule with the fourth quarter report to the Department for Local Government.

Additionally, *OMB Uniform Administrative Requirements, Cost Principles and Audit Requirements For Federal Awards* 2 CFR 200.508(b) requires the auditee to, "[p]repare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with 200.510 Financial statements." 2 CFR 200.510(b) states, in part, "[t]he auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with CFR 200.502 Basis for determining Federal awards expended... At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs...identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe the significant accounting policies used in preparing the schedule"

2 CFR 200.413(b) states, in part, "[t]ypical costs charged directly to a Federal award are the compensation of employees who work on that award, their related fringe benefits costs, the costs of materials and other items of expense incurred for the Federal award."

2 CFR 200.430(a) states, in part, "[c]ompensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits[.]"

Good internal controls dictate the SEFA be complete and accurate.

We recommend Metcalfe County Fiscal Court ensure the SEFA is complete and accurately prepared for each fiscal year federal monies are expended. This finding will be referred to the Kentucky Emergency Management office for further consideration.

County Judge/Executive's Response: Metcalfe County Fiscal Court will strive to accurately complete the annual SEFA for federal monies expended. The Emergency Management Director will provide the County Treasurer with the required information for an accurate reporting.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Metcalfe County Fiscal Court Lacks Adequate Controls Over Grant Reporting To Ensure Compliance With Grant Requirements

The Metcalfe County Fiscal Court did not adequately monitor the grant reporting process to ensure compliance with federal grant requirements were being met. According to Kentucky Emergency Management (KyEM), the Metcalfe County Fiscal Court received \$2,716,566 between fiscal year 2010 and June 30, 2018 in U.S. Federal Emergency Management Agency (FEMA) disaster public assistance funds related to up to six declared disasters. The disaster incident periods date back to May 2010 and involve 188 projects, all of these being small FEMA projects except for two large projects. FEMA handles funding for large and small projects differently. For small projects, KyEM provides funding to the county as soon as FEMA approves obligations without up-front disbursement documentation; therefore, documentation of actual costs does not have to be provided until disasters are in the close-out process. As of June 30, 2018, none of these disasters have been closed, and therefore, none of the accumulated costs since 2010 has been submitted and verified for these disasters.

The county treasurer receives EFT notifications with funding reports, records and makes deposits, and reconciles the federal grant fund bank account. She also prepares the quarterly reports and schedule of federal expenditures (SEFA) to determine if the county is required to have a single audit each fiscal year. A spreadsheet is maintained by her to track electronic deposits received by the state as well as any costs related to each grant as supporting documentation for the SEFA. She does not have access to review project worksheets as they go through the FEMA approval process so she is not able to readily monitor any changes in the projects.

The emergency management director is responsible for applying for any federal grants involving FEMA or KyEM. He assists FEMA in determining cost estimates, keeps them up to date with projects, and requests extensions from KyEM if needed. He also submits final closeout reports when these grants are ready to be closed. All of this activity is processed in EMMIE, a software system which manages public assistance grants electronically. There is no review documented over any costs or reports the emergency management director submits electronically and a lack of monitoring exists over these projects by the fiscal court.

While comparing the county treasurer's records to the emergency management director's, the following discrepancies were noted:

- Force account labor and equipment codes were not included as federal disbursements by the county treasurer on the SEFA. We noted a variance in costs of \$219,799 when comparing the two records on one FEMA disaster. (See report finding 2018-001)
- The county treasurer's records listed costs for a project worksheet that did not exist in the emergency management director's grants portal. The amounts the county treasurer listed in her spreadsheet appeared to be costs related to a different project worksheet.
- Amounts claimed by the emergency management director for one disaster closeout report were not reported accurately. Three invoices for three different roads totaling \$38,502 were reflected as supporting documentation for costs claimed on this P4 close out report; however, these invoices and check numbers were included on the county treasurer's spreadsheet for a different disaster. This led to the checks being included on the county's 2017 SEFA for the wrong project.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Metcalfe County Fiscal Court Lacks Adequate Controls Over Grant Reporting To Ensure Compliance With Grant Requirements (Continued)

- Two disasters were not included on the fiscal year 2018 SEFA at all even though 100% of the costs were incurred during the year on force account labor, materials, and equipment costs for repairs to roads as of June 30, 2018. (See report finding 2018-001)

Furthermore, other weaknesses were identified during the audit, including:

- Grant projects were completed but invoices were not received in a timely manner. One specific bridge project was completed on October 20, 2017, but the invoice in the amount of \$188,404 was not received until August 31, 2018, and was paid September 11, 2018. The emergency management director's summary of documentation in support of amount claimed for this disaster work was not signed until February 5, 2019, and sent to KyEM.
- The county received grant funds from two sources for the same item of work. \$101,600 in disbursements tested were reimbursed by two different funding sources. The county received reimbursement from FEMA funds as well as reimbursement from Kentucky Transportation Cabinet. (See Finding 2018-003)
- One project worksheet cost estimate provided to and approved by FEMA was higher than the bid. According to the FEMA small project worksheet, this project cost estimate was \$81,738. The county paid the contractor \$59,000 based on the bid submitted, or \$22,738 less than the project worksheet estimate submitted. The invoice from contractor was not detailed enough to know if scope of work was actually performed in accordance with the project worksheet.
- The emergency management director's final project sheet submitted for one FEMA disaster lacked proper supporting documentation. Auditors were unable to trace all claimed costs to work orders and invoices provided by the emergency management director for the costs claimed for each of the related project worksheets. Therefore, we were not able to determine all projects were performed in accordance with project worksheets and their scope of work approved. Project names appeared on more than one disaster project worksheet and invoices were not all detailed to determine scope of work.

A lack of communication between the county judge/executive, county treasurer's office, and emergency management department has led to these variances in reporting. Each department was tracking their grant costs separately and were never compared to each other for reporting. According to the county treasurer, she is not always aware when FEMA projects are approved and does not always know what makes up the costs on project worksheet cost estimates submitted by the emergency management director if they are not provided to her. According to the emergency management director, extensions had to be requested sometimes as the county could no longer perform some project work in house and would then require them to be bid out. He stated bids would also come in higher than actual costs estimated by FEMA causing increase in costs and changes to the scope of work without his knowledge.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Metcalfe County Fiscal Court Lacks Adequate Controls Over Grant Reporting To Ensure Compliance With Grant Requirements (Continued)

Furthermore, due to the county not receiving invoices from vendors timely, grant projects could be completed but not paid or included on the SEFA until the next fiscal year. This also increases the risk that project modifications are being performed without FEMA approval. Communication between the county judge/executive, treasurer's office, and the grant department heads are important to ensure any change in grant agreements or projects are addressed in a timely manner to ensure fiscal court is aware of additional costs incurred. This lack of communication also caused a misunderstanding between when projects were being submitted for reimbursement as FEMA projects or KYTC projects, as the former county judge/executive also served as temporary road supervisor for all of fiscal year 2018.

Adequate communication and segregation of duties would prevent the same person from having a significant role in the reporting of receipts, reporting of cost estimates, and reconciliation of these projects with actual costs and cost reported on the county schedule of federal expenditures.

Monitoring the controls over grant reporting is essential to ensure grant award objectives are attained, cost claimed are reasonable, allowable, and allocable, and the required administrative requirements are in place and operating effectively. Without proper monitoring, funds could be misused and the fiscal court could be responsible for repayment of federal funds received. Furthermore, by not correctly reporting the amount of federal awards expended each fiscal year, the county could have circumvented the requirement to undergo a single audit in the past in accordance with OMB Uniform Administrative Requirements.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires the county treasurer to prepare a schedule of expenditures of federal awards and submit this schedule with the fourth quarter financial report to the Department for Local Government.

Additionally, *OMB Uniform Administrative Requirements, Cost Principles and Audit Requirements For Federal Awards* 2 CFR 200.508(b) requires the auditee to, "[p]repare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with 200.510 Financial statements." 2 CFR 200.510(b) states, in part, "[t]he auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements...At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs...identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe the significant accounting policies used in preparing the schedule"

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Metcalfe County Fiscal Court Lacks Adequate Controls Over Grant Reporting To Ensure Compliance With Grant Requirements (Continued)

2 CFR 200.413(b) states, in part, “[t]ypical costs charged directly to a Federal award are the compensation of employees who work on that award, their related fringe benefits costs, the costs of materials and other items of expense incurred for the Federal award[.]”

2 CFR 200.430(a) states, in part, “[c]ompensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits[.]”

Additionally, the FEMA Public Assistance Program and Policy Guide includes additional guidance and requirements for applicants. FEMA’s criteria for reimbursing straight-time labor costs differ depending on the type of employee and whether that employee is performing emergency work (Category A-B for debris removal or emergency protective measures) or Permanent Work (Category C-G such as restoration of roads/bridges). The purpose of a closeout request for an applicant is to certify that all work has been completed with date of project completion, copies of any recipient time extensions, and certification that grant terms and conditions have been met and project costs are reconciled. Applicants are responsible for providing documentation to demonstrate its claimed costs are reasonable. If FEMA determines any of the costs to be unreasonable based on its evaluation, FEMA may disallow all or part of the cost by adjusting eligible funding to an amount it determines to be reasonable.

Furthermore, Section 312(a) Duplication of Benefits of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) prohibits the use of federal disaster assistance to pay a person or entity twice for the same disaster loss.

Establishing and maintaining effective internal control over grant reporting and compliance requirements applicable to federal programs is essential to provide reasonable assurance the county is managing federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements.

We recommend fiscal court strengthen controls over grant reporting to ensure compliance with grant requirements are being met. This finding will be referred to the Kentucky Emergency Management office for further consideration.

County Judge/Executive’s Response: Metcalfe County Fiscal Court will strengthen controls over grant reporting to ensure compliance with requirements.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Metcalfe County Fiscal Court Lacks Proper Controls Over Disbursements, Leading To Instances Where The County Received Reimbursement Twice For The Same Work

During fiscal year 2018, a lack of proper controls existed over purchasing and disbursement procedures by the Metcalfe County Fiscal Court. The purchase order system in place did not operate correctly and was not in compliance with the fiscal court's purchasing procedures. The following deficiencies were noted:

- Duplicate reimbursements from more than one source were noted where the county received a reimbursement request award on a small project from a FEMA disaster and also from the Kentucky Transportation Cabinet's (KYTC) 80/20 bridge program for the same project. The cost estimate on this project according to the FEMA project worksheet was \$651; however, the county submitted a quote dated May 30, 2017, of \$88,400 to KYTC. The final amount paid to the vendor for this project was on March 13, 2018, for \$79,800. The vendor who submitted the original quote for the KYTC grant application was also the same vendor to later receive the winning bid. The winning bid filed by this vendor came in at a lower bid cost than the original quote they provided to submit to KYTC. Furthermore, it was identified that another vendor had also submitted a bid for this project which would have been lower than the original quote submitted to KYTC for the project estimate (See Report Finding 2018-004). This payment was not included on the county's schedule of expenditures of federal awards. (See Report Finding 2018-001).
- Duplicate reimbursements were also noted where the county received a reimbursement request award from FEMA and also requested emergency road funding from KYTC for the same project. The cost estimate according to the FEMA small project worksheet was \$1,863; however, the county submitted an emergency request to KYTC and ended up spending \$21,800 for this project. This payment was not included on the county's schedule of expenditures of federal awards. (See Report Finding 2018-001).
- One disbursement tested for \$47,900 was paid based on an estimate only instead of a final invoice. According to the invoice this was due to the fact they would not know what all was involved until they began excavating.
- One invoice tested on an insurance premium renewal was paid at full price instead of the discount price since the county had paid the bill timely.
- Forty-four of 104 invoices tested had purchase orders issued after the work was performed or service was provided (date of invoice).
- Eighty-eight of 104 invoices tested did not contain purchase order numbers.
- One invoice tested did not have a purchase order at all.
- Fuel receipts for one department head tested were not maintained to compare to the fuel bill.
- Emergency management department disbursements were not always approved by the fiscal court prior to purchase. Reimbursement requests of \$2,687 were made after purchases were already made. This included \$2,324 in grant disbursements.
- Sales tax of \$197 was paid on five disbursements tested.
- Encumbrances were not reported on the fourth quarterly financial report.

The fiscal court did not understand the correct way for the purchase order system to operate as it has always been handled the same way. When purchase orders were made with approval by the former county judge/executive or county treasurer, the emergency management director stated he was not always aware particularly on KYTC and FEMA projects. Since the former county/judge executive was also acting as temporary road supervisor during fiscal year 2018, it was unclear who should have been requesting detailed purchase orders, especially for FEMA related projects.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Metcalfe County Fiscal Court Lacks Proper Controls Over Disbursements, Leading To Instances Where The County Received Reimbursement Twice For The Same Work (Continued)

A lack of a proper purchase order system in place increases the risk that services are being provided before approved by the fiscal court. The lack of communication also increases the risk federal grant disbursements are not being reported each year, and that the requests for reimbursement of federal grants is at a higher risk of fraud or error. In addition, by requesting quotes from a single vendor before projects are bid by the county, this particular vendor could have previous knowledge of project details before other bidders to ensure they submit the lowest bid.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires a purchase order system for all counties and each county is responsible for ensuring their purchase order system is executed and working properly. The manual also requires all contracts, invoices, purchase orders & authorizations, vendor bidding documentation, receipts, deeds, etc. to be maintained/filed with the asset documentation records.

Additionally, the Metcalfe County Administrative Code Chapter 6 (A) regarding purchases and contracts states, "[t]he County Judge/Executive is responsible for the negotiation and execution of all contracts for supplies and services, and for the administration and supervision of the County purchasing system." Chapter 6 regarding general purchase procedures section (A) states, "[a]ll purchases must be verified and approved by the issuance of a purchase order if the County budget has the proper appropriation for the Department's line item. When the vendor submits an invoice the purchase order number must be indicated; invoices without a purchase order number will not be paid. Sufficient funds must also exist in the department's line item from which the purchases will be paid. The county Judge/Executive, County Treasurer, and/or Finance Officer shall complete the purchase order form and signify their approval of the purchases by their signature or other appropriate method." Section (B) states, "[i]t is the responsibility of each Department Head to insure that the correct goods are received, that the vendor's invoice is received and is correct, and the purchase order amount has not been exceeded. Any deviation from the purchase order as issued should be brought to the attention of the County Judge/Executive. When all invoices, bills of lading, shipping documents, etc., are correct and the goods have been received, each Department Head shall forward to the Finance Officer and/or County Treasurer for payment."

Strong internal controls over disbursements and purchasing procedures are essential in ensuring disbursements are properly approved. All purchase orders should be approved and issued before the work or service is performed in order to ensure budgeted amounts are available and the amount does not exceed the available line item appropriation unless the necessary transfers have been made.

We recommend fiscal court strengthen controls over disbursements and the purchasing process by requiring disbursements to have purchase orders submitted prior to approval. All purchase orders should be completed properly and requested by department heads for approval to ensure purchases can be made and included as encumbrances each quarter on the financial statement.

County Judge/Executive's Response: Metcalfe County Fiscal Court will strengthen controls over disbursements and the purchasing process.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Metcalfe County Fiscal Court Paid Contractors More Than Contracted Amounts And Did Not Have Documented Change Orders

The Metcalfe County Fiscal Court did not have sufficient controls in place to ensure contractors were only paid the amount of the contract on federal projects. During test of bid procedures, the following was noted:

- One federal grants fund disbursement tested for various FEMA erosion projects was \$30,390 paid on March 13, 2018. Of this amount, \$2,390 was additional work performed making the price paid more than then accepted bid price and contract amount of \$28,000. No change order or amendment to this contract existed to support the approval of additional work performed. According to the contract dated May 1, 2017, construction was to be completed by October 1, 2017; however, the invoice was not received until March 1, 2018.
- Another federal grants fund disbursement tested for a FEMA low water crossing project was bid for \$27,000 with additional cost paid for work performed of \$4,300. A contract existed dated September 2, 2016, for \$27,000; however, no change order or amendment to this contract was found to support the approval of additional work performed. According to the contract, construction was to be completed by October 1, 2016; however, this invoice was not stamped received until March 15, 2018, and not paid until March 27, 2018.
- Furthermore, this project appeared on the Emergency Management Director's FEMA disaster claimed cost report project worksheet for \$27,000, which was the original amount of bid, not final project cost. This same check number did not appear on the county treasurer's disaster report for the disaster. Instead, she had this payment included on a different disaster as a fiscal year 2018 SEFA disbursement of \$31,300.

The officials could have made a mistake or error in supporting documentation costs that went undetected due to the lack of communication and supervisory review over grant disbursements being reported as documented in finding 2018-002. By not properly monitoring project contracts and the related payments made, the fiscal court allowed these errors to occur.

As a result, the fiscal court paid contractors more than it was contractually required to pay, and did not have documented change orders to justify and authorize the increase in cost. A lack of proper oversight and failure to obtain appropriate change orders also increases the risk the fiscal court may not have received the best value for services performed or products provided. Vendors with prior knowledge of projects would also have the opportunity to ensure they submit bids at a price to obtain the work as noted in finding 2018-003, but then subsequently increase the cost.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed the minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires all contracts, invoices, purchase orders & authorizations, vendor bidding documentation, receipts, deeds, etc. to be maintained/filed with the asset documentation records. The fiscal court should have obtained documented change orders if a contract modification was necessary due to a change in the scope of the project work.

Additionally, the Metcalfe County Administrative Code Chapter 6 regarding purchases and contracts states, "[t]he County Judge/Executive is responsible for the negotiation and execution of all contracts for supplies and services, and for the administration and supervision of the County purchasing system."

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Metcalfe County Fiscal Court Paid Contractors More Than Contracted Amounts And Did Not Have Documented Change Orders (Continued)

Strong internal controls require management to monitor disbursements and contract agreements to ensure compliance with procurement laws and to ensure all records are maintained. In addition, contracts going over the bid and contract amount should be documented with change orders to ensure the fiscal court is aware of changes to projects and cost overruns that occur, especially projects involving federal grants.

We recommend the fiscal court strengthen controls to ensure all contract work performed is in accordance with contract and bid specifications.

County Judge/Executive's Response: Metcalfe County Fiscal Court will strengthen controls to ensure all contracts and work performed is in accordance with contract and bid specifications.

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

METCALFE COUNTY FISCAL COURT

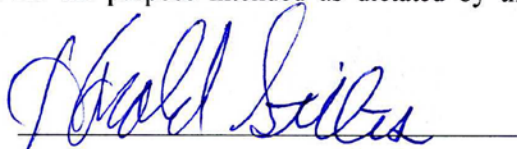
For The Year Ended June 30, 2018

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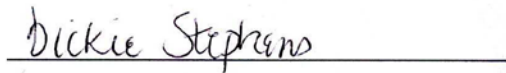
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
METCALFE COUNTY FISCAL COURT

For The Year Ended June 30, 2018

The Metcalfe 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.

A handwritten signature in blue ink, appearing to read "Donald Silber", written over a horizontal line.

County Judge/Executive

A handwritten signature in blue ink, appearing to read "Dickie Stephens", written over a horizontal line.

County Treasurer