

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

**For The Fiscal Year Ended
June 30, 2017**

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

Independent Auditors' Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Henderson County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Henderson 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.

Auditors' 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 auditors' 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 more fully in Note 1 of the financial statement, the financial statement is prepared by the Henderson 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 Henderson County Fiscal Court as of June 30, 2017, 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 Henderson County Fiscal Court as of June 30, 2017, 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 Henderson 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.

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

Supplementary Information (Continued)

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

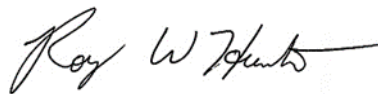
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018 on our consideration of the Henderson 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 Henderson County Fiscal Court's internal control over financial reporting and compliance.

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

- | | |
|----------|---|
| 2017-001 | The Henderson County Fiscal Court's Payroll Revolving Account Was Not Properly Reconciled |
| 2017-002 | Long-Term Liabilities Should Be Properly Reflected in the Quarterly Financial Report |
| 2017-J01 | The Henderson County Jail Commissary Lacks Adequate Segregation Of Duties |

Respectfully submitted,



Roy W. Hunter, CPA PLLC
 October 23, 2018

HENDERSON COUNTY FISCAL COURT OFFICIALS

For The Year Ended June 30, 2017

Fiscal Court Members:

Brad Schneider	County Judge/Executive
George Warren	Magistrate
Bruce Todd	Magistrate
Charles Alexander	Magistrate
Butch Puttman	Magistrate
Carter Wilkerson	Magistrate

Other Elected Officials:

Steve Gold	County Attorney
Ron Herrington	Jailer
Renesa Abner	County Clerk
Frances R. London	Circuit Court Clerk
Ed Brady	Sheriff
Howard Moran	Property Valuation Administrator
Bruce Farmer	Coroner

Appointed Personnel:

Brenda Duncan-Rider	County Treasurer
Paula Wilson	Finance Officer

**HENDERSON COUNTY FISCAL COURT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2017

HENDERSON COUNTY FISCAL COURT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2017

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 9,636,707	\$	\$	\$
In Lieu Tax Payments	422,412			
Excess Fees	40,694			
Licenses and Permits	131,115			119,085
Intergovernmental	3,062,938	1,590,630	8,446,464	406,405
Charges for Services		33,330	156,969	
Miscellaneous	266,759	187,970	555,408	73,571
Interest	9,420	1,094	38,658	122
Total Receipts	<u>13,570,045</u>	<u>1,813,024</u>	<u>9,197,499</u>	<u>599,183</u>
DISBURSEMENTS				
General Government	6,787,258			
Protection to Persons and Property	429,516		5,431,631	176,243
General Health and Sanitation		92,993		380,043
Social Services		268,005		145,153
Recreation and Culture				4,640
Roads	69,282	2,362,482		85,012
Bus Services				32,500
Debt Service				
Capital Projects			549,400	
Administration	883,600	780,377	1,784,928	27,568
Total Disbursements	<u>8,169,656</u>	<u>3,503,857</u>	<u>7,765,959</u>	<u>851,159</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>5,400,389</u>	<u>(1,690,833)</u>	<u>1,431,540</u>	<u>(251,976)</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds			2,215,000	
Borrowed Monies		260,000		
Change in Payroll Revolving Account	78,956			
Cost of Issuance			(37,197)	
Net Discount Less Premium on Bonds			41,697	
Transfers From Other Funds		1,500,000		375,000
Transfers To Other Funds	(2,162,050)		(585,000)	
Total Other Adjustments to Cash (Uses)	<u>(2,083,094)</u>	<u>1,760,000</u>	<u>1,634,500</u>	<u>375,000</u>
Net Change in Fund Balance	3,317,295	69,167	3,066,040	123,024
Fund Balance - Beginning (Restated)	2,693,565	784,183	3,172,477	216,793
Fund Balance - Ending	<u>\$ 6,010,860</u>	<u>\$ 853,350</u>	<u>\$ 6,238,517</u>	<u>\$ 339,817</u>
Composition of Fund Balance				
Bank Balance	\$ 4,642,322	\$ 881,547	\$ 5,944,800	\$ 346,923
Payroll Revolving Account Reconciled Balance	(169,975)			
Less: Outstanding Checks	(76,934)	(28,197)	(6,283)	(7,106)
Certificate of Deposits	1,215,447		300,000	
Structured Certificate of Deposits	400,000			
Fund Balance - Ending	<u>\$ 6,010,860</u>	<u>\$ 853,350</u>	<u>\$ 6,238,517</u>	<u>\$ 339,817</u>

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

HENDERSON COUNTY FISCAL COURT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS (CONTINUED)
For The Year Ended June 30, 2017

	<u>Budgeted Funds</u>		<u>Unbudgeted Funds</u>	
	<u>State Grant Fund</u>	<u>Economic Development Fund</u>	<u>General Obligation Bond Fund</u>	<u>Public Properties Debt Service Fund</u>
RECEIPTS				
Taxes	\$	\$	\$	\$
In Lieu Tax Payments				
Excess Fees				
Licenses and Permits				
Intergovernmental	441,017	101,119		726,284
Charges for Services				
Miscellaneous	2,483			
Interest		40	3,216	1,615
Total Receipts	<u>443,500</u>	<u>101,159</u>	<u>3,216</u>	<u>727,899</u>
DISBURSEMENTS				
General Government		108,371		
Protection to Persons and Property				
General Health and Sanitation				
Social Services	193,229			
Recreation and Culture				
Roads				
Bus Services				
Debt Service			872,050	6,178,319
Capital Projects	292,939		701,855	
Administration				
Total Disbursements	<u>486,168</u>	<u>108,371</u>	<u>1,573,905</u>	<u>6,178,319</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(42,668)</u>	<u>(7,212)</u>	<u>(1,570,689)</u>	<u>(5,450,420)</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds				5,495,881
Borrowed Monies				
Change in Payroll Revolving Account				
Cost of Issuance				(45,465)
Premium on Bonds				
Transfers From Other Funds			872,050	
Transfers To Other Funds				
Total Other Adjustments to Cash (Uses)			<u>872,050</u>	<u>5,450,416</u>
Net Change in Fund Balance	(42,668)	(7,212)	(698,639)	(4)
Fund Balance - Beginning (Restated)	303,627	129,889	2,573,450	4
Fund Balance - Ending	<u>\$ 260,959</u>	<u>\$ 122,677</u>	<u>\$ 1,874,811</u>	<u>\$ 0</u>
Composition of Fund Balance				
Bank Balance	\$ 287,778	\$ 122,677	\$ 1,874,811	\$
Payroll Revolving Account Reconciled Balance				
Less: Outstanding Checks	(26,819)			
Certificate of Deposits				
Structured Certificate of Deposits				
Fund Balance - Ending	<u>\$ 260,959</u>	<u>\$ 122,677</u>	<u>\$ 1,874,811</u>	<u>\$ 0</u>

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

HENDERSON COUNTY FISCAL COURT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS (CONTINUED)
For The Year Ended June 30, 2017

	<u>Unbudgeted Fund</u>		<u>Internal Service Fund</u>
	<u>Jail</u>		<u>Health</u>
	<u>Commissary</u>	<u>Total</u>	<u>Insurance</u>
	<u>Fund</u>	<u>Funds</u>	<u>Fund</u>
RECEIPTS			
Taxes	\$	\$ 9,636,707	\$
In Lieu Tax Payments		422,412	
Excess Fees		40,694	
Licenses and Permits		250,200	
Intergovernmental		14,774,857	
Charges for Services	1,435,781	1,626,080	
Miscellaneous		1,086,191	2,479,000
Interest		54,165	
Total Receipts	<u>1,435,781</u>	<u>27,891,306</u>	<u>2,479,000</u>
DISBURSEMENTS			
General Government		6,895,629	
Protection to Persons and Property		6,037,390	
General Health and Sanitation		473,036	
Social Services		606,387	
Recreation and Culture	1,311,291	1,315,931	
Roads		2,516,776	
Bus Services		32,500	
Debt Service		7,050,369	
Capital Projects		1,544,194	
Administration		3,476,473	1,964,423
Total Disbursements	<u>1,311,291</u>	<u>29,948,685</u>	<u>1,964,423</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>124,490</u>	<u>(2,057,379)</u>	<u>514,577</u>
Other Adjustments to Cash (Uses)			
Bond Proceeds		7,710,881	
Borrowed Monies		260,000	
Change in Payroll Revolving Account		78,956	
Cost of Issuance		(82,662)	
Premium on Bonds		41,697	
Transfers From Other Funds		2,747,050	
Transfers To Other Funds		(2,747,050)	
Total Other Adjustments to Cash (Uses)		<u>8,008,872</u>	
Net Change in Fund Balance	124,490	5,951,493	514,577
Fund Balance - Beginning (Restated)	463,598	10,337,586	400,420
Fund Balance - Ending	<u>\$ 588,088</u>	<u>\$ 16,289,079</u>	<u>\$ 914,997</u>
Composition of Fund Balance			
Bank Balance	\$ 589,645	\$ 14,690,503	\$ 914,997
Payroll Revolving Account Reconciled Balance		(169,975)	
Less: Outstanding Checks	(1,557)	(146,896)	
Certificate of Deposits		1,515,447	
Structured Certificate of Deposits		400,000	
Fund Balance - Ending	<u>\$ 588,088</u>	<u>\$ 16,289,079</u>	<u>\$ 914,997</u>

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

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TO THE FINANCIAL STATEMENT**

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**HENDERSON COUNTY FISCAL COURT
NOTES TO THE FINANCIAL STATEMENT
June 30, 2017**

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

HENDERSON COUNTY FISCAL COURT
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

State Grants Fund - The primary purpose of this fund is to account for activity related to federal and state grants. The primary source of receipts for this fund is federal and state grants.

Economic Development Fund - The primary purpose of this fund is to account for activity related to development in the county. The primary source of receipts for this fund is coal severance monies.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

General Obligation Bond Fund - The purpose of this fund is to account for debt service requirements of the Courts Facility - Series 2006 Bonds, Refunding Bonds - Series 2012, Refunding Bonds - Series 2013, and General Obligation Bonds - Series 2015. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

Public Properties Debt Service Fund - The primary purpose of this fund is to account for receipts from the Administrative Office of the Courts used to offset the County's required payments on its debt related to the courthouse.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailor to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the fund.

D. Budgetary Information

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

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

HENDERSON COUNTY FISCAL COURT
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Information (Continued)

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

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

The State Local Finance Officer does not require the Public Properties Debt Service Fund or the General Obligation Bond Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Henderson County Fiscal Court Elected Officials

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

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

HENDERSON COUNTY FISCAL COURT
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

GASB Statement No. 77 - Tax Abatement Disclosures is effective for reporting periods beginning after December 15, 2015.

The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public presently. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

The fiscal court had no tax abatements.

Note 2. Deposits and Investments

A. 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, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

The fiscal court had \$1,515,447 in traditional certificate of deposits (CDs) in which the market and cost basis are the same. Also, the fiscal court also had \$400,000 of structured CDs. Structured CDs are a form of complex financial instruments called derivatives. These types of CDs derive their value from the value of other investments. For structured CDs, the performance of their derivative portion is often based on the value of a group or index of stocks. The value of the derivative can be engineered to rise or fall when that index rises or falls, allowing investors to base their CD return on the performance of a particular security or index of securities. Structured CDs do not earn interest, instead their values at maturity is based on the difference between the stock index at a predefined starting and ending points. The amount paid at maturity will not be less than the amount of the original cost basis; however, the CDs must be held to maturity to at least get the cost basis back. The cost basis (as reported on the financial statement) of the structured CDs and the market value was \$400,000 and \$398,545, respectively.

**HENDERSON COUNTY FISCAL COURT
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)
June 30, 2017**

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2017.

	General Fund	Jail Fund	Total Transfers In
Road Fund	\$ 1,500,000		\$ 1,500,000
LGEA Fund	375,000		375,000
General Obligation Bond Fund	287,050	585,000	872,050
 Total Transfers Out	 <u>\$ 2,162,050</u>	 <u>\$ 585,000</u>	 <u>\$ 2,747,050</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. Agency Trust Funds

Agency trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust funds:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the Jail Inmate Fund as of June 30, 2017 was \$147,958.

Note 5. ReceivablesA. Airport Receivable

Henderson County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust on April 19, 2007 for the purpose of funding an airport expansion (See Note 6G) project along with the City of Henderson, the principal amount of the loan was given directly to the airport. The lease amount was \$325,000. Henderson County has recognized the debt and the receivable. The balance of the receivable at June 30, 2017 was \$207,717.

B. Reed Fire Department Receivable

During the fiscal year 2013, Henderson County Fiscal Court loaned the Reed Volunteer Fire Department \$50,000. This loan was to be paid back with an annual payment of \$5,000 with no interest added starting in 2013. As a result, the balance available for Reed's Fire Department in the appropriations ledger was to be reduced by \$5,000 every year. As of June 30, 2017, the balance of the receivable was \$25,000.

HENDERSON COUNTY FISCAL COURT
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)
June 30, 2017

Note 6. Long-term Debt

A. Courts Facility - Series 2006 Bonds

The Henderson County Public Properties Corporation entered into a bond issue, Henderson County Public Properties Corporation Lease Revenue Refunding Bonds (Court Facility Project), Series 2006 on December 1, 2006, for the purpose of paying the costs associated with the refunding and refinancing of the Series 2000 Bonds. The issue amount of the bonds was \$9,670,000. Interest on the bonds is payable semi-annually on February 1 and August 1 of each year. The bonds will mature on February 1 of each year thereafter. The principal balance outstanding for the bond issue as of June 30, 2017 was \$0. The bonds were refinanced in fiscal year 2017 (See E below).

B. Refunding Bonds - Series 2012

Henderson County Fiscal Court issued \$1,865,000 General Obligation Refunding Bonds, Series 2012 dated May 2012, for the purpose of refunding and retiring a portion of the County's 2003 Detention Center Bond. Principal payments are due each year on June 1, in amounts indicated below starting June 1, 2012. Interest on the bonds is payable semi-annually on June 1 and December 1, beginning June 1, 2012. The principal balance outstanding for the bond issue as of June 30, 2017 was \$1,110,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30th	Principal	Interest
2018	\$ 175,000	\$ 21,200
2019	180,000	18,750
2020	185,000	15,870
2021	185,000	12,170
2022	190,000	8,470
2023	195,000	4,290
Totals	<u>\$ 1,110,000</u>	<u>\$ 80,750</u>

C. Refunding Bonds - Series 2013

Henderson County Fiscal Court issued \$3,335,000 General Obligation Refunding Bonds, Series 2013 dated September 2013, for the purpose of refunding and retiring a portion of the County's 2003 Detention Center Bond. Principal payments are due each year on June 1, in amounts indicated below starting June 1, 2014. Interest on the bonds is payable semi-annually on June 1 and December 1, beginning June 1, 2014. The principal balance outstanding for the bond issue as of June 30, 2017 was \$2,125,000. Future principal and interest requirements are as follows:

HENDERSON COUNTY FISCAL COURT
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)
June 30, 2017

Note 6. Long-term Debt (Continued)

C. Refunding Bonds - Series 2013 (Continued)

Fiscal Year Ended June 30th	Principal	Scheduled Interest
2018	\$ 335,000	\$ 55,200
2019	345,000	48,500
2020	345,000	40,737
2021	355,000	32,113
2022	365,000	22,350
2023	380,000	11,400
Totals	<u>\$ 2,125,000</u>	<u>\$ 210,300</u>

D. General Obligation Bonds - Series 2015

Henderson County Fiscal Court issued \$3,545,000 General Obligation Bonds, Series 2015 dated November 2015, for the purpose of funding a new 911 emergency system. Principal payments are due each year on December 1, in amounts indicated below starting December 1, 2017. Interest on the bonds is payable semi-annually on June 1 and December 1, beginning June 1, 2017. The principal balance outstanding for the bond issue as of June 30, 2017 was \$3,340,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30th	Principal	Scheduled Interest
2018	\$ 205,000	\$ 77,950
2019	210,000	73,800
2020	215,000	69,550
2021	220,000	65,200
2022	225,000	60,750
2023-2027	1,195,000	232,400
2028-2031	1,070,000	65,400
Totals	<u>\$ 3,340,000</u>	<u>\$ 645,050</u>

E. Lease Revenue Refunding Bonds, Series 2017 (Judicial Center Project)

The Henderson County Public Properties Corporation issued \$5,495,881 Lease Revenue Refunding Bonds, Series 2017 dated February 9, 2017, for the purpose of refunding and retiring the Courts Facility – Series 2006 Bonds. Principal payments are due each year on February 1, in amounts indicated below starting February 1, 2018. Interest on the bonds is payable semi-annually on February 1 and August 1, beginning August 1, 2017. The principal balance outstanding for the bond issue as of June 30, 2017 was \$5,495,881. Future principal and interest requirements are as follows:

HENDERSON COUNTY FISCAL COURT
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)
June 30, 2017

Note 6. Long-term Debt (Continued)

E. Lease Revenue Refunding Bonds, Series 2017 (Judicial Center Project) (Continued)

Fiscal Year Ended June 30th	Principal	Scheduled Interest
2018	\$ 214,575	\$ 115,536
2019	611,368	113,548
2020	624,718	100,404
2021	637,059	86,972
2022	653,475	73,276
2023-2026	<u>2,754,686</u>	<u>149,699</u>
Totals	<u>\$ 5,495,881</u>	<u>\$ 639,435</u>

F. General Obligation Public Project Bonds - Series 2017

Henderson County Fiscal Court issued \$2,215,000 General Obligation Public Project Bonds, Series 2017 dated February 7, 2017, for the purpose of financing the costs of acquisition, construction, installation and equipping of improvements to the Henderson County Detention Facility. Principal payments are due each year on March 1, in amounts indicated below starting March 1, 2018. Interest on the bonds is payable semi-annually on March 1 and September 1, beginning September 1, 2017. The principal balance outstanding for the bond issue as of June 30, 2017 was \$2,215,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 200,000	\$ 52,854
2019	205,000	49,750
2020	210,000	45,650
2021	215,000	41,450
2022	220,000	37,150
2023-2027	<u>1,165,000</u>	<u>104,600</u>
Totals	<u>\$ 2,215,000</u>	<u>\$ 331,454</u>

G. Airport Lease

Henderson County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust on April 19, 2007 for the purpose of funding an airport expansion project along with the City of Henderson, the principal amount of the loan was given directly to the airport. The lease amount was \$325,000. Principal and interest payments are due monthly. Interest is charged at a rate of 4.338%. The lease will be paid in full on May 20, 2027. The principal balance as of June 30, 2015 was \$207,717. Future principal and interest requirements are as follows:

HENDERSON COUNTY FISCAL COURT
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)
June 30, 2017

Note 6. Long-term Debt (Continued)

G. Airport Lease (Continued)

Fiscal Year Ended June 30th	Principal	Scheduled Interest
2018	\$ 15,705	\$ 8,749
2019	16,696	8,064
2020	17,749	7,348
2021	16,870	6,575
2022	20,061	5,756
2023-2027	<u>120,636</u>	<u>14,558</u>
Totals	<u>\$ 207,717</u>	<u>\$ 51,050</u>

H. Gradall Lease

Henderson County Fiscal Court entered into a lease agreement with Field & Main Bank on July 20, 2016 for the purpose of purchasing a 2016 Volvo Gradall, the principal amount of the loan was given directly to the vendor. The lease amount was \$260,000. Principal and interest payments are due monthly. Interest is charged at a rate of 2.90%. The lease will be paid in full on July 20, 2019. The principal balance as of June 30, 2017 was \$182,875. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 86,340	\$ 4,256
2019	89,003	1,593
2020	<u>7,532</u>	<u>18</u>
Totals	<u>\$ 182,875</u>	<u>\$ 5,867</u>

I. Changes In Long-term Debt

Long-term debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2006 Revenue Refunding Bonds	\$ 5,925,000	\$	\$5,925,000	\$	\$
2012 General Obligation Bonds	1,285,000		175,000	1,110,000	175,000
2013 General Obligation Bonds	2,450,000		325,000	2,125,000	335,000
2015 General Obligation Bonds	3,545,000		205,000	3,340,000	205,000
2017 Lease Revenue Refunding		5,495,881		5,495,881	214,575
2017 General Obligation Bonds		2,215,000		2,215,000	200,000
Financing Obligations	<u>222,488</u>	<u>260,000</u>	<u>91,896</u>	<u>390,592</u>	<u>102,045</u>
Total Long-term Debt	<u>\$ 13,427,488</u>	<u>\$ 7,970,881</u>	<u>\$ 6,721,896</u>	<u>\$ 14,676,473</u>	<u>\$ 1,231,620</u>

**HENDERSON COUNTY FISCAL COURT
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)
June 30, 2017**

Note 7. Commitments and Contingencies

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

A. Industrial Revenue Bonds

The Henderson County Fiscal Court has adopted ordinances approving the issuance of Industrial Revenue Bonds and Pollution Control Bonds. Such bond issues do not constitute a general debt, liability, or moral obligation of Henderson County. Accordingly, these financial statements do not include any assets or liabilities related to the issuance of these various bond issues.

B. Ambulance Service Agreement

In April 1983, the County of Henderson along with the City of Henderson entered into an agreement with Community Methodist Hospital for the operation of a countywide ambulance service. The hospital agreed to operate the ambulance service with both the City and County reimbursing the hospital for any operating loss incurred on a quarterly basis. Expenses incurred under this agreement for fiscal year ended June 30, 2017 were \$166,330.

C. Henderson City-County Planning Commission

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Henderson City-County Planning Commission (Planning Commission). The Planning Commission is a joint venture between Fiscal Court and City of Henderson to assist and promote the orderly development of the county and cities. The Fiscal Court and City of Henderson are each responsible for fifty percent of the basic administration included in the budget of the Planning Commission. Expenses incurred under this agreement for fiscal year ended June 30, 2017, were \$342,666.

D. Henderson City-County Airport Board

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Henderson City-County Airport Board. The Airport Board is a joint venture between the Fiscal Court and the City of Henderson to assist and promote the Henderson City-County Airport. Expenses incurred under this agreement for fiscal year ended June 30, 2017 was \$100,000.

E. KYNDLE (Formerly Northwest KY Forward)

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for KYNDLE, which is a joint venture between the Fiscal Court and City of Henderson to assist and promote Henderson County. Expenses incurred under this agreement for fiscal year ended June 30, 2017 was \$50,000.

F. Community United Methodist Hospital – Conduit Debt

The County issued \$7,000,000 in revenue bonds in fiscal year 2013 to enable a non-profit corporation to finance the acquisition of medical equipment. The bonds do not constitute an indebtedness or pledge of faith and credit of the County; therefore, no obligation is recorded on the County's long-term debt note in Note 6.

**HENDERSON COUNTY FISCAL COURT
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)
June 30, 2017**

Note 8. Employee Retirement System

A. Plan Description

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

The county's contribution for FY 2015 was \$1,293,119, FY 2016 was \$1,214,162, and FY 2017 was \$1,302,529.

Nonhazardous

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one 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 five percent of their annual creditable compensation. Nonhazardous members also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the 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 four 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 18.68 percent.

**HENDERSON COUNTY FISCAL COURT
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)
June 30, 2017**

Note 8. Employee Retirement System (Continued)

Health Insurance Coverage

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

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

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

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.

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 a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/Employers/Resources/Pages/GASB.aspx>. 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 9. Deferred Compensation

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

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

HENDERSON COUNTY FISCAL COURT
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)
June 30, 2017

Note 9. Deferred Compensation (Continued)

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Self-Insurance - Health

Henderson County Fiscal Court elected to begin a partially self-funded health insurance plan as of April 1, 1997. County employees and the Fiscal Court contributes monthly towards the health insurance plan's costs. The County maintains one insurance plan with various levels of coverage (i.e. single, family, etc.). These plans offer many discounts that decrease the costs for both the employees and the Fiscal Court. The Riverport Authority employees also contribute to this fund. Henderson County contracted with Anthem Blue Cross Blue Shield as of January 1, 2012.

This partially self-funded insurance plan has two distinct components that the fiscal court must pay. The first component is the fixed cost, which consists of administrative fees associated with operating the plan, and specific and aggregate reinsurance costs that cap the county's claims exposure on an individual and aggregate basis. Fixed and administrative costs for fiscal year ending June 30, 2017 were \$492,165. The second component is the claims cost, all of which Henderson County is responsible to pay as they incur. Once an individual exceeds \$100,000 (This amount was \$75,000 from July 1, 2016 – December 31, 2016) in claims or the County's aggregate claims exceed the predetermined maximum, then the County will receive reimbursements from the reinsurance carrier. These amounts are netted on the bill the County receives. Incurred claims for fiscal year ended June 30, 2017 were \$1,472,258. Henderson County Fiscal Court's contract with Anthem Blue Cross Blue Shield has no terminal liability provisions. The Court will be responsible to pay all run-out claims after termination. The Health Insurance Fund had a balance of \$914,997 as of June 30, 2017.

Note 11. Health Reimbursement Account

The Henderson County Fiscal Court established a Health Reimbursement Account in January 2017 to provide employees an additional health benefit. The County has contracted with Wage Works, a third-party administrator, to administer the plan. The plan provides a debit card to each eligible employee providing \$750 (single health insurance plan) or \$1,500 for a family health insurance plan, each year to pay for qualified medical expenses. The balance of the HRA accounts as of June 30, 2017 that was held with Wage Works was \$68,102.49. The fiscal court also has an HRA account at a local bank that had a balance of \$136,273 as of June 30, 2017. This account is used to pay out contributions and other costs related to the HRA to Wage Works.

Note 12. Insurance

For the fiscal year ended June 30, 2017, Henderson County Fiscal Court County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 13. Payroll Revolving Account

The reconciled balance of the Payroll Revolving Account as of June 30, 2017, was added to the General Fund cash balance for financial reporting purposes.

HENDERSON COUNTY FISCAL COURT
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)
June 30, 2017

Note 14. Prior Period Adjustments

	General Fund	Road Fund	Jail Fund	Economic Development Fund	Total Funds
Ending Balance Prior Year	\$ 2,984,208	\$ 779,021	\$ 2,869,207	\$ 110,729	\$ 10,300,637
Adjustments:					
Certificate of Deposit	(300,000)		300,000		
Prior Year Voided Checks	9,357	5,162	3,270	19,160	36,949
Beginning Cash Balance Restated	<u>\$ 2,693,565</u>	<u>\$ 784,183</u>	<u>\$ 3,172,477</u>	<u>\$ 129,889</u>	<u>\$ 10,337,586</u>

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**HENDERSON COUNTY FISCAL COURT
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2017

**HENDERSON COUNTY FISCAL COURT
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017**

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 7,792,973	\$ 8,124,973	\$ 9,636,707	\$ 1,511,734
In Lieu Tax Payments	376,000	376,000	422,412	46,412
Excess Fees	120,000	120,000	40,694	(79,306)
Licenses and Permits	125,000	125,000	131,115	6,115
Intergovernmental	3,045,748	3,045,748	3,062,938	17,190
Miscellaneous	55,400	257,724	266,759	9,035
Interest	5,000	5,000	9,420	4,420
Total Receipts	<u>11,520,121</u>	<u>12,054,445</u>	<u>13,570,045</u>	<u>1,515,600</u>
DISBURSEMENTS				
General Government	7,163,837	7,413,568	6,787,258	626,310
Protection to Persons and Property	515,337	525,037	429,516	95,521
Roads	78,633	78,633	69,282	9,351
Debt Service	250,000	290,000		290,000
Administration	1,004,269	1,204,162	883,600	320,562
Total Disbursements	<u>9,012,076</u>	<u>9,511,400</u>	<u>8,169,656</u>	<u>1,341,744</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>2,508,045</u>	<u>2,543,045</u>	<u>5,400,389</u>	<u>2,857,344</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(2,508,045)</u>	<u>(2,508,045)</u>	<u>(2,162,050)</u>	<u>345,995</u>
Total Other Adjustments to Cash (Uses)	<u>(2,508,045)</u>	<u>(2,508,045)</u>	<u>(2,162,050)</u>	<u>345,995</u>
Net Change in Fund Balance		35,000	3,238,339	3,203,339
Fund Balance - Beginning (Restated)			<u>2,693,565</u>	<u>2,693,565</u>
Fund Balance - Ending	<u>\$</u>	<u>\$ 35,000</u>	<u>\$ 5,931,904</u>	<u>\$ 5,896,904</u>

HENDERSON COUNTY FISCAL COURT
BUDGETARY COMPARISON SCHEDULES (CONTINUED)
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017

	ROAD FUND			
	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,564,593	\$ 1,666,344	\$ 1,590,630	\$ (75,714)
Charges for Services	20,000	20,000	33,330	13,330
Miscellaneous	68,000	74,400	187,970	113,570
Interest	200	200	1,094	894
Total Receipts	<u>1,652,793</u>	<u>1,760,944</u>	<u>1,813,024</u>	<u>52,080</u>
DISBURSEMENTS				
General Health and Sanitation	156,889	135,289	92,993	42,296
Social Services	382,556	382,556	268,005	114,551
Roads	2,488,354	2,589,410	2,362,482	226,928
Administration	757,805	786,500	780,377	6,123
Total Disbursements	<u>3,785,604</u>	<u>3,893,755</u>	<u>3,503,857</u>	<u>389,898</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,132,811)</u>	<u>(2,132,811)</u>	<u>(1,690,833)</u>	<u>441,978</u>
Other Adjustments to Cash (Uses)				
Borrowed Monies			260,000	260,000
Transfers From Other Funds	2,132,811	2,132,811	1,500,000	(632,811)
Total Other Adjustments to Cash (Uses)	<u>2,132,811</u>	<u>2,132,811</u>	<u>1,760,000</u>	<u>(372,811)</u>
Net Change in Fund Balance			69,167	69,167
Fund Balance - Beginning (Restated)			<u>784,183</u>	<u>784,183</u>
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 853,350</u>	<u>\$ 853,350</u>

HENDERSON COUNTY FISCAL COURT
BUDGETARY COMPARISON SCHEDULES (CONTINUED)
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017

	JAIL FUND			
	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 6,689,955	\$ 6,689,955	\$ 8,446,464	\$ 1,756,509
Charges for Services	69,500	69,500	156,969	87,469
Miscellaneous	389,000	389,000	555,408	166,408
Interest	10,000	10,000	38,658	28,658
Total Receipts	<u>7,158,455</u>	<u>7,158,455</u>	<u>9,197,499</u>	<u>2,039,044</u>
DISBURSEMENTS				
Protection to Persons and Property	5,101,882	5,577,687	5,431,631	146,056
Debt Service	617,418	706,143		706,143
Capital Project		2,612,045	549,400	2,062,645
Administration	1,752,772	1,791,197	1,784,928	6,269
Total Disbursements	<u>7,472,072</u>	<u>10,687,072</u>	<u>7,765,959</u>	<u>2,921,113</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(313,617)</u>	<u>(3,528,617)</u>	<u>1,431,540</u>	<u>4,960,157</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds		2,215,000	2,215,000	
Cost of Issuance			(37,197)	37,197
Net Discount Less Premium on Bonds			41,697	(41,697)
Transfers to Other Funds			(585,000)	(585,000)
Total Other Adjustments to Cash (Uses)	<u></u>	<u>2,215,000</u>	<u>1,634,500</u>	<u>(589,500)</u>
Net Change in Fund Balance	(313,617)	(1,313,617)	3,066,040	4,379,657
Fund Balance - Beginning (Restated)	<u>313,617</u>	<u>1,313,617</u>	<u>3,172,477</u>	<u>1,858,860</u>
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 6,238,517</u>	<u>\$ 6,238,517</u>

HENDERSON COUNTY FISCAL COURT
BUDGETARY COMPARISON SCHEDULES (CONTINUED)
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	(Budgetary	Final Budget
			Basis)	Positive
				(Negative)
RECEIPTS				
Licenses and Permits	\$ 100,000	\$ 100,000	\$ 119,085	\$ 19,085
Intergovernmental	328,384	413,540	406,405	(7,135)
Miscellaneous	1,000	1,000	73,571	72,571
Interest	5,000	5,000	122	(4,878)
Total Receipts	<u>434,384</u>	<u>519,540</u>	<u>599,183</u>	<u>79,643</u>
DISBURSEMENTS				
General Government				
Protection to Persons and Property	262,500	235,932	176,243	59,689
General Health and Sanitation	312,427	380,443	380,043	400
Social Services	196,550	163,534	145,153	18,381
Recreation and Culture	4,640	4,640	4,640	
Roads		85,156	85,012	144
Bus Services	32,500	32,500	32,500	
Administration	1,000	27,568	27,568	
Total Disbursements	<u>809,617</u>	<u>929,773</u>	<u>851,159</u>	<u>78,614</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	<u>(375,233)</u>	<u>(410,233)</u>	<u>(251,976)</u>	<u>158,257</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>375,233</u>	<u>375,233</u>	<u>375,000</u>	<u>(233)</u>
Total Other Adjustments to Cash (Uses)	<u>375,233</u>	<u>375,233</u>	<u>375,000</u>	<u>(233)</u>
Net Change in Fund Balance		(35,000)	123,024	158,024
Fund Balance - Beginning			<u>216,793</u>	<u>216,793</u>
Fund Balance - Ending	<u>\$</u>	<u>\$ (35,000)</u>	<u>\$ 339,817</u>	<u>\$ 374,817</u>

HENDERSON COUNTY FISCAL COURT
BUDGETARY COMPARISON SCHEDULES (CONTINUED)
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017

	STATE GRANT FUND			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 495,000	\$ 495,000	\$ 441,017	\$ (53,983)
Miscellaneous			2,483	2,483
Total Receipts	495,000	495,000	443,500	(51,500)
DISBURSEMENTS				
Protection to Persons and Property				
Social Services	220,000	220,000	193,229	26,771
Recreation and Culture	275,000	34,464		34,464
Capital Projects		292,939	292,939	
Total Disbursements	495,000	547,403	486,168	61,235
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(52,403)	(42,668)	9,735
Net Change in Fund Balance		(52,403)	(42,668)	9,735
Fund Balance - Beginning		52,403	303,627	251,224
Fund Balance - Ending	\$	\$	\$ 260,959	\$ 260,959

HENDERSON COUNTY FISCAL COURT
BUDGETARY COMPARISON SCHEDULES (CONTINUED)
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017

ECONOMIC DEVELOPMENT FUND				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$ 108,500	\$ 101,119	\$ (7,381)
Interest			40	40
Total Receipts		108,500	101,159	(7,341)
DISBURSEMENTS				
General Government		138,500	108,371	30,129
Total Disbursements		138,500	108,371	30,129
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(30,000)	(7,212)	22,788
Net Change in Fund Balance		(30,000)	(7,212)	22,788
Fund Balance - Beginning (Restated)		30,000	129,889	99,889
Fund Balance - Ending	\$	\$	\$ 122,677	\$ 122,677

HENDERSON COUNTY FISCAL COURT
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES
June 30, 2017

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board* and according to 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 1st of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1st.

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

Note 2. Disbursements Exceeding Budgeted Appropriations

In the year ended June 30, 2017, there were no disbursement items exceeding their respective budgeted amounts.

Note 3. Reconciliation of the General Fund

Reconciliation of the General Fund

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ (2,162,050)
To adjust for Payroll Revolving Account	<u>78,956</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u><u>\$ (2,083,094)</u></u>
Fund Balance - Ending - Budgetary Basis	\$ 5,931,904
To adjust for Payroll Revolving Account	<u>78,956</u>
Total Fund Balance - Ending - Regulatory Basis	<u><u>\$ 6,010,860</u></u>

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**HENDERSON COUNTY FISCAL COURT
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017**

**HENDERSON COUNTY FISCAL COURT
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017**

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 648,213	\$	\$	\$ 648,213
Buildings and Building Improvements	21,897,419	71,642		21,969,061
Vehicles and Equipment	6,949,413	526,319	58,339	7,417,393
Equipment - Jail	94,955		63,300	31,655
Infrastructure	10,553,674	580,134		11,133,808
Construction in Progress		335,613		335,613
 Total Capital Assets	 <u>\$ 40,143,674</u>	 <u>\$ 1,513,708</u>	 <u>\$ 121,639</u>	 <u>\$ 41,535,743</u>

HENDERSON COUNTY FISCAL COURT
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS
June 30, 2017

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

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

The Honorable Brad Schneider, Henderson County Fiscal Court Judge/Executive
Members of the Henderson 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 Auditors' 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 Henderson County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Henderson County Fiscal Court's financial statement and have issued our report thereon dated October 23, 2017. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

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

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses as items: 2017-001, 2017-002, and 2017-J01 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 Henderson County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2017-001.

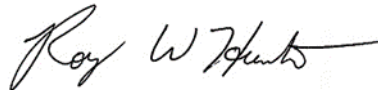
County Judge/Executive's Response to Findings

The Henderson County Fiscal Court Judge/Executive's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The County Judge/Executive 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,



Roy W. Hunter, CPA PLLC
October 23, 2018

**HENDERSON COUNTY FISCAL COURT
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

**HENDERSON COUNTY FISCAL COURT
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2017**

Financial Statement Findings:

State Laws and Regulations and Internal Control – Material Weakness

2017-001 The Henderson County Fiscal Court’s Payroll Revolving Account Was Not Properly Reconciled

This is a repeat finding and was included in the prior year audit report as finding 2016-002.

The Department of Local Government County Budget Preparation and State Local Finance Officer Policy Manual requires monthly bank reconciliations.

Additionally, proper internal controls require that bank accounts be reconciled on a monthly basis in a manner that ensures accuracy and appropriate reporting.

The ending balance in the payroll account did not accurately reflect the actual position of the County with regards to the payroll funds due to improper reconciliation that caused activities of different accounts to co-mingle with the payroll funds.

The maintenance of payroll records was inadequate as there were no ledgers supporting all of the activity that was taking place in the fund during the year. Because the payroll activity was co-mingled with self-insurance payments, an accounting for all transactions was practically impossible. As a result, reconciliation of the payroll fund was not properly handled and caused the payroll fund balance to inaccurately reflect the actual position of the County.

As a result of poor reconciliation, the respective cash balances of the self-insurance and the payroll fund were inaccurately reported. The revolving payroll account should zero out at the end of the year to reconcile to a minimal carrying balance. However, because of the improper handling of the payroll activities, the payroll ending balance was negative.

The auditors recommend that the payroll fund be properly reconciled on a monthly basis. In order to simplify the reconciling procedures, the County should handle all of their self-insurance activity in a separate account. Such activity should not be co-mingled with that of the payroll account, which will reduce the complexity of the reconciliations as well as ensure the proper handling of these funds. The County should also ensure that the revolving account maintain a zero or minimum positive cash balance at the end of the period.

Views of Responsible Official and Planned Corrective Action:

January 2017, the county began employee HRA funding with a separate account. February 2018 the county began utilizing a separate account for self-funded employee health insurance. The treasurer’s office continues to develop in-house procedures to reconcile the remaining payroll fund with regards to health insurance and develop reconciling procedures for the payroll fund.

**HENDERSON COUNTY FISCAL COURT
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2017
(Continued)**

Financial Statement Findings: (Continued)

Internal Control – Material Weakness

2017-002 Long-Term Liabilities Should Be Properly Reflected in the Quarterly Financial Report

This is a repeat finding and was included in the prior year audit report as finding 2016-005.

The balances of long-term liabilities reported on the 4th Quarter Financial Statement Report differed materially from the actual ending balances for both principal and interest.

Reported debt balances differed from actual debt balances as a result of poor internal controls relating to the liabilities area. The absence of a periodic reconciliation/review of report balances to County records resulted in balances being reported incorrectly, and the absence of proper oversight prevented the County from correcting this deficiency.

The ending principal balance per the 4th Quarter Report was understated, and the interest balance per the 4th Quarter Report was understated as well. Reported principal and interest balances fell short of actual balances by \$399,151 in total. Individual variances relating to the respective balances were higher but offset each other in total.

Ideally, the County should establish and maintain policies and procedures to ensure accurate reporting of debt balances that reflect on the actual position of the County. This includes a maintenance of an up-to-date debt schedule that is reviewed periodically.

The auditors recommend that the County establish and maintain a separate debt schedule that is updated periodically and reconciled to the report balances before reports are released. Variances should be investigated as they are discovered. The County should also perform reviews by a responsible individual other than the one performing the reconciliation on a periodic basis.

Views of Responsible Official and Planned Corrective Action:

While recognizing based on prior audits, and due to timing of prior audits, this has been revisited and recently implemented. Debt schedules have been created and will be monitored going forward at least on a quarterly basis by an independent party, which may be the finance committee.

**HENDERSON COUNTY FISCAL COURT
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2017
(Continued)**

Financial Statement Findings: (Continued)

Internal Control – Material Weakness (Continued)

2017-J01: The Henderson County Jail Commissary Lacks Adequate Segregation Of Duties

The Jail Commissary Administrative Officer performs incompatible duties of asset custody, record keeping, and reporting. The Officer has check signature authority, performs the monthly bank reconciliations, has access to computerized accounting records, and completes the Annual Commissary Report.

The Henderson County Detention Center budget does not allow for the personnel costs associated with proper segregation of duties. No compensating controls were implemented for the year of audit.

Improperly segregated accounting duties exposes inmate funds to fraud and error not detectible or preventable by other internal accounting controls.

The ideal environment of segregated duties puts responsibility for asset custody, record keeping, and reporting in the hands of separate individuals.

We recommend the Jail commissary institute compensating controls. An example would be to have dual signatures on checks with the Jailer or someone separate from commissary accounting functions being the second signature, and having a similar individual review the monthly bank reconciliations and annual reports, then evidencing the review with a signature and date on the documents.

Views of Responsible Official and Planned Corrective Action:

Currently being done.

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

HENDERSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2017**

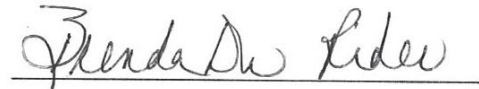
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HENDERSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

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



County Judge/Executive



County Treasurer