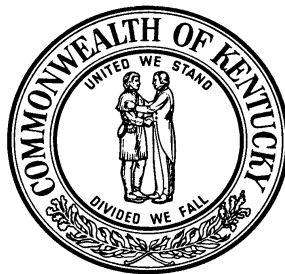


**REPORT OF THE AUDIT OF THE
HENRY COUNTY
FISCAL COURT**

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable John Logan Brent, Henry County Judge/Executive
Members of the Henry 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 Henry County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Henry 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.



To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable John Logan Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

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 Henry 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 Henry 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 Henry 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.

Emphasis of Matter

Deficit Fund Balances

As discussed in Note 11 to the financial statement, the Henry County Fiscal Court had an actual deficit fund balance in its jail fund and fair fund of (\$29,733) and (\$2,641), respectively, at June 30, 2017. The deficits were due primarily to the county not properly transferring funds in a timely manner. The financial statement does not include any adjustment for fiscal year-end deficits. This matter does not affect our opinion on the financial statement.

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 Henry 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
 The Honorable Matthew G. Bevin, Governor
 William M. Landrum III, Secretary
 Finance and Administration Cabinet
 The Honorable John Logan Brent, Henry County Judge/Executive
 Members of the Henry County Fiscal Court

Other Matters (Continued)

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 May 1, 2018, on our consideration of the Henry 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 Henry 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:

- 2017-001 The Henry County Fiscal Court Lacks Segregation Of Duties Over Receipts And Bank Reconciliations
- 2017-002 The Henry County Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
- 2017-003 The Henry County Fiscal Court Reported Negative Fund Balances
- 2017-004 The Henry County Fiscal Court Did Not Prepare Purchase Orders

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

May 1, 2018

HENRY COUNTY OFFICIALS**For The Year Ended June 30, 2017****Fiscal Court Members:**

John Logan Brent	County Judge/Executive
Scott Bates	Magistrate
Jerry Beasley	Magistrate
Jason Stanley	Magistrate
Michael Fisher	Magistrate
Ricky Timberland	Magistrate
Tony Moffett (Through October 2016)	Magistrate
Terri Cummings (November 2016 - present)	Magistrate

Other Elected Officials:

Virginia Harrod	County Attorney
Scott Southworth	Jailer
Shanda Archer	County Clerk
Gina Lyle	Circuit Court Clerk
Danny Cravens	Sheriff
Jason Scriber	Property Valuation Administrator
James Pollard	Coroner

Appointed Personnel:

Katie Mathis (May 2016 - October 2016)	County Treasurer
Mary Scriber (October 2016 - July 2017)	County Treasurer
Amanda Ricketts	Finance Officer
Peggy Bryant (Through August 2016)	Deputy County Judge/Executive

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

For The Year Ended June 30, 2017

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

For The Year Ended June 30, 2017

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 1,224,849	\$	\$
Excess Fees	161,842		
Licenses and Permits	281,941		
Intergovernmental	235,169	1,124,836	132,126
Charges for Services	702,439		11,174
Miscellaneous	1,042,333	4,805	12
Interest	1,902	5,163	18
Total Receipts	<u>3,650,475</u>	<u>1,134,804</u>	<u>143,330</u>
DISBURSEMENTS			
General Government	1,522,060		
Protection to Persons and Property	732,279		506,786
General Health and Sanitation	112,625		
Social Services	7,808		
Recreation and Culture	127,124		
Roads		920,673	
Debt Service	62,097		
Capital Projects	59,995		
Administration	998,409	226,618	30,929
Total Disbursements	<u>3,622,397</u>	<u>1,147,291</u>	<u>537,715</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>28,078</u>	<u>(12,487)</u>	<u>(394,385)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	148,320		340,000
Transfers To Other Funds	<u>(344,000)</u>	<u>(148,320)</u>	
Total Other Adjustments to Cash (Uses)	<u>(195,680)</u>	<u>(148,320)</u>	<u>340,000</u>
Net Change in Fund Balance	(167,602)	(160,807)	(54,385)
Fund Balance - Beginning (Restated)	990,785	1,488,379	24,652
Fund Balance - Ending	<u>\$ 823,183</u>	<u>\$ 1,327,572</u>	<u>\$ (29,733)</u>
Composition of Fund Balance			
Bank Balance	\$ (14,176)	\$ 127,573	\$ (5,861)
Less: Outstanding Checks	(6,236)	(35)	(23,872)
Certificates of Deposit	<u>843,595</u>	<u>1,200,034</u>	
Fund Balance - Ending	<u>\$ 823,183</u>	<u>\$ 1,327,572</u>	<u>\$ (29,733)</u>

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

HENRY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2017
(Continued)

<u>Budgeted Funds</u>				
Local Government Economic Assistance Fund	Solid Waste Fund	Emergency 911 Fund	Fair Fund	Total Funds
\$	\$	\$ 38,423	\$	\$ 1,263,272
				161,842
				281,941
53,755	24,783			1,570,669
				713,613
			4,146	1,051,296
14	6	41	2	7,146
<u>53,769</u>	<u>24,789</u>	<u>38,464</u>	<u>4,148</u>	<u>5,049,779</u>
				1,522,060
28,977	39,982	37,540		1,345,564
4,395				117,020
19,950				27,758
675			15,925	143,724
				920,673
				62,097
				59,995
	319			1,256,275
<u>53,997</u>	<u>40,301</u>	<u>37,540</u>	<u>15,925</u>	<u>5,455,166</u>
<u>(228)</u>	<u>(15,512)</u>	<u>924</u>	<u>(11,777)</u>	<u>(405,387)</u>
			4,000	492,320
				(492,320)
			4,000	
(228)	(15,512)	924	(7,777)	(405,387)
17,592	34,729	161,223	5,136	2,722,496
<u>\$ 17,364</u>	<u>\$ 19,217</u>	<u>\$ 162,147</u>	<u>\$ (2,641)</u>	<u>\$ 2,317,109</u>
\$ 17,364	\$ 19,217	\$ 182,147	\$ (2,641)	\$ 323,623
		(20,000)		(50,143)
				2,043,629
<u>\$ 17,364</u>	<u>\$ 19,217</u>	<u>\$ 162,147</u>	<u>\$ (2,641)</u>	<u>\$ 2,317,109</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

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**HENRY COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2017

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

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

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

Solid Waste Fund - The primary purpose of this fund is to account for the litter grants and related disbursements.

Emergency 911 Fund - The primary purpose of this fund is to account for emergency 911 receipts and disbursements. The sole source of receipts for this fund is telephone taxes.

Fair Fund - The primary purpose of this fund is to account for receipts and disbursements for the fair grounds and park. The primary sources of receipts for this fund are rent and transfers from the general 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.

E. Henry County Elected Officials

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

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

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(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.

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

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 3. Transfers

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

	General Fund	Road Fund	Total Transfers In
General Fund	\$	\$ 148,320	\$ 148,320
Jail Fund	340,000		340,000
Fair Fund	4,000		4,000
Total Transfers Out	<u>\$ 344,000</u>	<u>\$ 148,320</u>	<u>\$ 492,320</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. Financial Obligation - Courthouse Annex

On October 29, 1999, the Henry County Fiscal Court entered into a financial obligation agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for the purchase of the Courthouse Annex county office building in the amount of \$375,000. The obligation (\$356,417) was refinanced on May 7, 2001, with the terms being changed to a variable interest rate on the unpaid principal, and with monthly payments due the 20th of each month. The obligation is to be paid in full on May 20, 2020. The principal balance was \$79,874 as of June 30, 2017. The following table shows the scheduled interest (based upon an interest rate of 4 percent) and principal amounts during the next three years:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 25,795	\$ 3,027
2019	27,423	1,912
2020	<u>26,656</u>	<u>715</u>
Totals	<u>\$ 79,874</u>	<u>\$ 5,654</u>

B. Financial Obligation – Land Purchased

On February 8, 2007, the Henry County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$302,782. The purpose of the financing was for the purchase of land for the building of a senior citizens center, a park, and possibly a new health department building. The term of the agreement was ten years with a variable interest rate, based upon an interest rate swap, with the balance to be paid in full by January 20, 2017. The principal balance was paid in full as scheduled.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 4. Long-term Debt (Continued)

C. 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
Financing Obligations	\$ 136,920		\$ 57,046	\$ 79,874	\$ 25,795
Total Long-term Debt	<u>\$ 136,920</u>	<u>\$</u>	<u>\$ 57,046</u>	<u>\$ 79,874</u>	<u>\$ 25,795</u>

Note 5. Commitments and Contingencies

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

Note 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 2015 was \$388,158, FY 2016 was \$332,524, and FY 2017 was \$418,207.

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.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 6. Employee Retirement System (Continued)

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.

Hazardous

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

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. Hazardous members contribute eight percent of their annual creditable compensation and 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 Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a seven and one-half percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for hazardous employees was 31.06 percent.

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%

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 6. Employee Retirement System (Continued)

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

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

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

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

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

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

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2017, the Henry 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. Accounts Receivable

The Henry County Fiscal Court provides ambulance services for citizens in the county. The ambulance service bills Medicare, Medicaid, health insurance companies, and individuals for services provided. Unpaid bills at June 30, 2017, totaled \$382,580.

Note 10. Prior Period Adjustments

The beginning balance of the general fund was restated by \$6 due to the correction of errors in the prior year.

Note 11. Deficit Fund Balances

As of June 30, 2017, the jail fund and fair fund had deficit balances of (\$29,733) and (\$2,641), respectively. The deficits were due primarily to the county not properly transferring funds in a timely manner. The financial statement does not include any adjustment for fiscal year-end deficits.

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

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HENRY COUNTY
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	\$ 1,126,501	\$ 1,126,501	\$ 1,224,849	\$ 98,348
Excess Fees	76,200	76,200	161,842	85,642
Licenses and Permits	235,200	235,200	281,941	46,741
Intergovernmental	241,634	241,634	235,169	(6,465)
Charges for Services	801,000	801,000	702,439	(98,561)
Miscellaneous	1,088,002	1,088,002	1,042,333	(45,669)
Interest	3,500	3,500	1,902	(1,598)
Total Receipts	<u>3,572,037</u>	<u>3,572,037</u>	<u>3,650,475</u>	<u>78,438</u>
DISBURSEMENTS				
General Government	1,649,358	1,681,208	1,522,060	159,148
Protection to Persons and Property	836,287	875,566	732,279	143,287
General Health and Sanitation	127,901	134,431	112,625	21,806
Social Services	8,000	8,000	7,808	192
Recreation and Culture	134,310	134,465	127,124	7,341
Debt Service	62,098	62,098	62,097	1
Capital Projects	60,001	60,001	59,995	6
Administration	1,084,501	1,006,687	998,409	8,278
Total Disbursements	<u>3,962,456</u>	<u>3,962,456</u>	<u>3,622,397</u>	<u>340,059</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(390,419)</u>	<u>(390,419)</u>	<u>28,078</u>	<u>418,497</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	158,669	158,669	148,320	(10,349)
Transfers To Other Funds	(487,516)	(487,516)	(344,000)	143,516
Loan Proceeds	27,500	27,500		(27,500)
Total Other Adjustments to Cash (Uses)	<u>(301,347)</u>	<u>(301,347)</u>	<u>(195,680)</u>	<u>105,667</u>
Net Change in Fund Balance	(691,766)	(691,766)	(167,602)	524,164
Fund Balance - Beginning (Restated)	<u>691,766</u>	<u>691,766</u>	<u>990,785</u>	<u>299,019</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 823,183</u>	<u>\$ 823,183</u>

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,159,922	\$ 1,370,822	\$ 1,124,836	\$ (245,986)
Miscellaneous	6,300	6,300	4,805	(1,495)
Interest	6,500	6,500	5,163	(1,337)
Total Receipts	<u>1,172,722</u>	<u>1,383,622</u>	<u>1,134,804</u>	<u>(248,818)</u>
DISBURSEMENTS				
Roads	1,001,551	1,400,856	920,673	480,183
Administration	246,500	230,195	226,618	3,577
Total Disbursements	<u>1,248,051</u>	<u>1,631,051</u>	<u>1,147,291</u>	<u>483,760</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(75,329)</u>	<u>(247,429)</u>	<u>(12,487)</u>	<u>234,942</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(148,320)</u>	<u>(148,320)</u>	<u>(148,320)</u>	
Total Other Adjustments to Cash (Uses)	<u>(148,320)</u>	<u>(148,320)</u>	<u>(148,320)</u>	
Net Change in Fund Balance	(223,649)	(395,749)	(160,807)	234,942
Fund Balance - Beginning	<u>223,649</u>	<u>395,749</u>	<u>1,488,379</u>	<u>1,092,630</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,327,572</u>	<u>\$ 1,327,572</u>

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 129,000	\$ 129,000	\$ 132,126	\$ 3,126
Charges for Services	15,000	15,000	11,174	(3,826)
Miscellaneous	1,512	1,512	12	(1,500)
Interest	70	70	18	(52)
Total Receipts	<u>145,582</u>	<u>145,582</u>	<u>143,330</u>	<u>(2,252)</u>
DISBURSEMENTS				
Protection to Persons and Property	577,250	577,250	506,786	70,464
Administration	43,900	43,900	30,929	12,971
Total Disbursements	<u>621,150</u>	<u>621,150</u>	<u>537,715</u>	<u>83,435</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(475,568)</u>	<u>(475,568)</u>	<u>(394,385)</u>	<u>81,183</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>475,568</u>	<u>475,568</u>	<u>340,000</u>	<u>(135,568)</u>
Total Other Adjustments to Cash (Uses)	<u>475,568</u>	<u>475,568</u>	<u>340,000</u>	<u>(135,568)</u>
Net Change in Fund Balance			(54,385)	(54,385)
Fund Balance - Beginning			<u>24,652</u>	<u>24,652</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (29,733)</u>	<u>\$ (29,733)</u>

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 65,000	\$ 65,000	\$ 53,755	\$ (11,245)
Interest	100	100	14	(86)
Total Receipts	<u>65,100</u>	<u>65,100</u>	<u>53,769</u>	<u>(11,331)</u>
DISBURSEMENTS				
Protection to Persons and Property	30,000	30,200	28,977	1,223
General Health and Sanitation	8,000	8,000	4,395	3,605
Social Services	25,002	25,002	19,950	5,052
Recreation and Culture	1,251	1,251	675	576
Administration	501	301		301
Total Disbursements	<u>64,754</u>	<u>64,754</u>	<u>53,997</u>	<u>10,757</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>346</u>	<u>346</u>	<u>(228)</u>	<u>(574)</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(346)</u>	<u>(346)</u>		<u>346</u>
Total Other Adjustments to Cash (Uses)	<u>(346)</u>	<u>(346)</u>		<u>346</u>
Net Change in Fund Balance			(228)	(228)
Fund Balance - Beginning			<u>17,592</u>	<u>17,592</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 17,364</u>	<u>\$ 17,364</u>

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 26,000	\$ 26,000	\$ 24,783	\$ (1,217)
Interest			6	6
Total Receipts	<u>26,000</u>	<u>26,000</u>	<u>24,789</u>	<u>(1,211)</u>
DISBURSEMENTS				
General Health and Sanitation	40,500	40,500	39,982	518
Administration	2,000	2,000	319	1,681
Total Disbursements	<u>42,500</u>	<u>42,500</u>	<u>40,301</u>	<u>2,199</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(16,500)</u>	<u>(16,500)</u>	<u>(15,512)</u>	<u>988</u>
Net Change in Fund Balance	(16,500)	(16,500)	(15,512)	988
Fund Balance - Beginning	<u>16,500</u>	<u>16,500</u>	<u>34,729</u>	<u>18,229</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 19,217</u>	<u>\$ 19,217</u>

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	EMERGENCY 911 FUND			
	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 50,003	\$ 50,003	\$ 38,423	\$ (11,580)
Interest	50	50	41	(9)
Total Receipts	<u>50,053</u>	<u>50,053</u>	<u>38,464</u>	<u>(11,589)</u>
DISBURSEMENTS				
Protection to Persons and Property	39,550	39,550	37,540	2,010
Administration	500	500		500
Total Disbursements	<u>40,050</u>	<u>40,050</u>	<u>37,540</u>	<u>2,510</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>10,003</u>	<u>10,003</u>	<u>924</u>	<u>(9,079)</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(10,003)</u>	<u>(10,003)</u>		<u>10,003</u>
Total Other Adjustments to Cash (Uses)	<u>(10,003)</u>	<u>(10,003)</u>		<u>10,003</u>
Net Change in Fund Balance			924	924
Fund Balance - Beginning			<u>161,223</u>	<u>161,223</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 162,147</u>	<u>\$ 162,147</u>

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	FAIR FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1	\$ 1	\$	\$ (1)
Miscellaneous	7,002	7,002	4,146	(2,856)
Interest	50	50	2	(48)
Total Receipts	<u>7,053</u>	<u>7,053</u>	<u>4,148</u>	<u>(2,905)</u>
DISBURSEMENTS				
Recreation and Culture	18,001	18,001	15,925	2,076
Administration	1,000	1,000		1,000
Total Disbursements	<u>19,001</u>	<u>19,001</u>	<u>15,925</u>	<u>3,076</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(11,948)</u>	<u>(11,948)</u>	<u>(11,777)</u>	<u>171</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>11,948</u>	<u>11,948</u>	<u>4,000</u>	<u>(7,948)</u>
Total Other Adjustments to Cash (Uses)	<u>11,948</u>	<u>11,948</u>	<u>4,000</u>	<u>(7,948)</u>
Net Change in Fund Balance			(7,777)	(7,777)
Fund Balance - Beginning			<u>5,136</u>	<u>5,136</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (2,641)</u>	<u>\$ (2,641)</u>

HENRY COUNTY
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 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.

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

For The Year Ended June 30, 2017

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HENRY COUNTY
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 (*Restated)	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land and Land Improvements	\$ 681,782	\$	\$	\$ 681,782
Construction In Progress		11,000		11,000
Buildings and Building Improvements	2,549,262			2,549,262
Vehicles*	1,450,731	10,900	20,699	1,440,932
Equipment	1,167,729	144,373		1,312,102
Infrastructure	6,403,871	210,843		6,614,714
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 12,253,375</u>	<u>\$ 377,116</u>	<u>\$ 20,699</u>	<u>\$ 12,609,792</u>

**HENRY COUNTY
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 and Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Vehicles and Equipment	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-25

Note 2. Restatement of Beginning Balance

Vehicles beginning balance was increased by \$4,000 due to errors in the 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 John Logan Brent, Henry County Judge/Executive
Members of the Henry 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 Henry County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Henry County Fiscal Court's financial statement and have issued our report thereon dated May 1, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Henry 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 Henry County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Henry 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 identified certain deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, and 2017-003 to be material weaknesses.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Henry 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 2017-003 and 2017-004.

Views of Responsible Official and Planned Corrective Action

Henry 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

May 1, 2018

HENRY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017

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**HENRY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Henry County Fiscal Court Lacks Segregation Of Duties Over Receipts and Bank Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The county lacks segregation of duties over receipts and bank reconciliations. The same person collects receipts, prepares the deposit ticket, takes the deposit to the bank, records the receipts in the ledger, and reconciles the bank account. There is no independent review over these procedures. As a result of limited staff, the county does not have any other employees separate from the treasurer involved in checking deposits and the bank reconciliations. When duties are performed by the same employee and no compensating controls are in place, the risk for material misstatement significantly increases due to undetected errors and fraud.

A proper segregation of duties over the accounting and reporting functions such as preparation of bank reconciliation reports or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from undetected errors. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the county separate the control functions related to receipts and bank reconciliations or implement procedures to begin having these steps reviewed for accuracy. The review should be done by someone not involved in the process and be documented by initials of the reviewer on all documents reviewed.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Prior to this audit, the County had instituted several additional controls over Receipts and Reconciliation. All deposit slips prepared and initialed by that person, then they are checked and then initialed by that individual. The deposits are taken to the bank by someone other than the person preparing the deposit.

The initial Bank Reconciliation is prepared by the Treasurer along with supporting documentation. It is then reviewed by the Fiscal Officer for discrepancies, and then signed by the Treasurer before it is presented to Fiscal Court at their monthly meeting.

Auditor's Reply: Controls implemented after the end of the audit period will be evaluated in the next audit.

2017-002 The Henry County Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll

This is a repeat finding and was included in the prior year audit as finding 2016-002. The Henry County Fiscal Court lacks adequate segregation of duties over payroll. The same employee who enters payroll data into the payroll system, also reviews it and compares it against timesheets, prints checks, requests funds for payroll from the operating account, signs the payroll checks, and reconciles the revolving payroll account. All of these procedures are done without independent review.

The county had one person handling incompatible duties over payroll due to a limited budget and limited staff. No supervisory review procedures were performed. When controls procedures are performed by the same employee and no compensating controls are in place, the risk for material misstatement significantly increases due to undetected errors and fraud.

Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds.

**HENRY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Henry County Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll (Continued)

We recommend the fiscal court implement adequate controls over payroll by segregating the duties over the handling of payroll. If this is not feasible, the county should implement compensating controls. For example, an independent county employee should compare payroll data to payroll reports for accuracy. The independent employee should then sign off on the payroll reports that this compensating control was completed.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Court has instituted several additional controls over payroll. The Treasurer receives the timesheets and inputs the data into a spreadsheet, then inputs the data into the payroll software and prints a report that previews the payroll. The Treasurer presents the packet, along with a tracking document, to the Finance Officer who then reviews the timesheets ensuring that they reconcile to the spreadsheet. After the spreadsheet is validated, the Finance Officer reviews the report to ensure that it reconciles back to the spreadsheet. If there are errors, the entire packet is sent back to the Treasurer for correction, and the errors are noted on the tracking document. Once the errors are corrected and reviewed (if needed), the Treasurer then prints checks. After the checks are printed, they are presented to the Finance Officer along with a tracking document for review. The Finance Officer reviews the checks and then submits them back to the Treasurer along with the tracking document noting any errors, omissions, or duplication that might appear. The Treasurer then prepares the documentation and reports necessary to request funds from the Finance Officer. The Finance Officer reviews the documentation and reports, and if no errors are found, issues a check(s) to the payroll account. The Treasurer then signs the payroll checks.

Auditor's Reply: Controls implemented after the end of the audit period will be evaluated in the next audit.

2017-003 The Henry County Fiscal Court Reported Negative Fund Balances

The Henry County Fiscal Court uses one bank account for all of the county's funds. The county reported negative fund balances in the jail fund (\$29,733) and fair fund (\$2,641).

The county uses a clearing bank account for payroll processing. Deposits are made into the account from the county's operating fund to pay for salaries, taxes, the county's matching portion of taxes, retirement, and health insurance. The account should reconcile to zero every month because the total deposited into the account should be completely paid out that same month. The county's payroll account also had a negative cash balance in the amount of (\$5,916) as of June 30, 2017.

During FY16 and FY17, the county experienced numerous changes in county treasurer, the employee responsible for monitoring accounting and financial reporting functions. During this time, errors occurred and had to be identified and corrected, making it difficult to determine the amount of transfers needed to prevent the negative fund balances. In addition, the county had a lack of adequate segregation of duties over bank reconciliations and payroll. (See finding 2017-001 and 2017-002) The county lacked an effective review process to mitigate risks associated with the lack of segregation of duties.

Fund balance is a critical indicator of financial health and negative fund balances are indicative of cash flow problems. Furthermore, a negative fund balance represents noncompliance with applicable laws and regulations.

Good internal controls dictate that an effective review process be implemented when segregation of duties issues exist. This review should be designed to ensure amounts reported agree to supporting documentation. The controls should be designed to address any errors noted in a timely fashion.

HENRY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 The Henry County Fiscal Court Reported Negative Fund Balances (Continued)

Furthermore, maintaining positive fund balances is required by statutes. KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* states that the county treasurer is only to sign checks if there is sufficient fund balance and adequate cash in the bank to cover the check.

We recommend the fiscal court maintain positive balances in all funds by monitoring fund balances. The county should implement procedures to ensure that transfers within the operating account and deposits to the revolving account are adequate to cover claims and liabilities. The county should request cash transfers as necessary from the fiscal court to avoid negative fund balances.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The reporting of negative fund balances was caused by the failure to submit necessary transfers to Fiscal Court on a regular basis. These transfers are being reviewed by the Treasurer and Finance Officer on a monthly basis, and are being submitted to Fiscal Court with the claims, for approval. After Fiscal Court approval, the Treasurer is inputting the approved transfers before the monthly closeout and reconciliation.

2017-004 The Henry County Fiscal Court Did Not Prepare Purchase Orders

During testing of disbursements, auditors noted that the fiscal court did not utilize a purchase order system. Testing was conducted on 41 invoices and no purchase orders were noted for any of the tested items.

The county's established policy was to allow department heads to order items they need. The department heads brought the reviewed and initialed invoice to the finance officer for entry into the county's computer system and for presentation to fiscal court for approval.

As a result, the county is not in compliance with the requirements of KRS 68.210.

KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for handling of public funds, including required purchasing procedures for counties. These requirements prescribe that (1) purchases shall not be made without approval by the judge/executive (or designee) and/or department head and (2) purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.

Furthermore, according to the manual, purchase order systems are required for fiscal courts and should be issued for all goods and services utilized by the fiscal court. The Department for Local Government issued a memorandum on August 4, 2016, in which it highly recommends implementation of issuing purchase orders for payroll and utilities. This allows for fiscal court to ensure that sufficient budget allocation is available for all expenses and provides a better representation of financial status by reflecting more accurate encumbrances.

We recommend the Henry County Fiscal Court ensure that purchase orders are obtained prior to all purchases.

HENRY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The Henry County Fiscal Court Did Not Prepare Purchase Orders (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Currently, we do not have the staff available to prepare and distribute purchase orders. We are considering how we might establish this system in the future. All supervisors have spending limits. Any purchase over the authorized limit must be preapproved by the Judge/Executive.

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

HENRY COUNTY FISCAL COURT


For The Year Ended June 30, 2017

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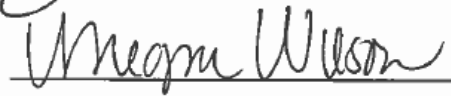
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
HENRY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

The Henry 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