

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

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



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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 Jack B. McCaslin, Hancock County Judge/Executive

Members of the Hancock County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the financial statement of Hancock County, Kentucky, for the year ended June 30, 2017.

We engaged Tichenor & Associates, LLP to perform the audit of this financial statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Hancock County Fiscal Court's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon".

Mike Harmon

Auditor of Public Accounts

Enclosure



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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 Hancock County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Hancock County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Hancock 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 Hancock 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 Hancock 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 Hancock County Fiscal Court. The Budgetary Comparison Schedules and the Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules and the 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 the Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2018, on our consideration of the Hancock 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 Hancock 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, which discusses the following report findings:

- 2017-001 The Fiscal Court Does Not Have Adequate Internal Control Over Credit Card Transactions
- 2017-002 The Fiscal Court Did Not Maintain Documentation For Employment Packages
- 2017-003 The Fiscal Court Lacks Segregation Of Duties Over Cash, Receipts, And Payroll

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, KY

April 17, 2018

HANCOCK COUNTY OFFICIALS

For The Year Ended June 30, 2017

Fiscal Court Members:

Jack B. McCaslin	County Judge/Executive
John M. Gray	Magistrate
James W. Hodskins	Magistrate
Johnny W. Roberts, Jr.	Magistrate
Larry G. Sosh	Magistrate

Other Elected Officials:

Paul Madden, Jr.	County Attorney
Roger D. Estes	Jailer
Trina M. Ogle	County Clerk
Ralph D. Bozarth	Sheriff
Karen Robertson	Property Valuation Administrator
David C. Gibson	Coroner

Appointed Personnel:

Melissa D. Johnson	County Treasurer
Stacy L. Bozarth	Occupational Tax Administrator
Karen C. Bolin	Personnel Officer

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

For The Year Ended June 30, 2017

HANCOCK COUNTY
STATEMENTS 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	\$ 4,054,722	\$	\$
In Lieu Tax Payments	10,171		
Excess Fees	140,916		
Licenses and Permits	13,416		
Intergovernmental	366,270	949,479	92,575
Charges for Services	277,939		13,826
Miscellaneous	481,219	186,382	73
Interest	1,981	423	
Total Receipts	<u>5,346,634</u>	<u>1,136,284</u>	<u>106,474</u>
DISBURSEMENTS			
General Government	1,433,411		
Protection to Persons and Property	1,251,618		109,621
General Health and Sanitation	194,479		
Social Services	262,846		
Recreation and Culture	296,335		
Roads		1,469,275	
Airports	9,765		
Debt Service		30,977	
Administration	1,438,052	180,945	16,999
Total Disbursements	<u>4,886,506</u>	<u>1,681,197</u>	<u>126,620</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>460,128</u>	<u>(544,913)</u>	<u>(20,146)</u>
Other Adjustments to Cash (Uses)			
Payroll Revolving Account	8,462		
Loan Proceeds		136,402	
Loan Payoff		(134,902)	
Loan Fees			
Transfers from Other Funds	16,938	380,000	18,500
Transfers to Other Funds	(417,239)		
Total Other Adjustments to Cash (Uses)	<u>(391,839)</u>	<u>381,500</u>	<u>18,500</u>
Net Change in Fund Balance	68,289	(163,413)	(1,646)
Fund Balance - Beginning (Restated)	3,026,672	350,577	7,040
Fund Balance - Ending	<u>\$ 3,094,961</u>	<u>\$ 187,164</u>	<u>\$ 5,394</u>
Composition of Fund Balance			
Bank Balance	\$ 3,280,918	\$ 208,158	\$ 7,363
Plus: Payroll Revolving Account	8,462		
Less: Outstanding Checks	<u>(194,419)</u>	<u>(20,994)</u>	<u>(1,969)</u>
Fund Balance - Ending	<u>\$ 3,094,961</u>	<u>\$ 187,164</u>	<u>\$ 5,394</u>

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

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

<u>Budgeted Funds</u>			<u>Unbudgeted Fund</u>	
<u>Local Government Economic Assistance Fund</u>	<u>E911 Fund</u>	<u>Federal Grant Fund</u>	<u>Public Facilities Construction Corporation Fund</u>	<u>Total Funds</u>
\$	\$ 26,805	\$	\$	\$ 4,081,527
				10,171
				140,916
				13,416
101,805	115,834	16,938	849,873	2,492,774
				291,765
				667,674
325	409			3,138
<u>102,130</u>	<u>143,048</u>	<u>16,938</u>	<u>849,873</u>	<u>7,701,381</u>
				1,433,411
1,071	170,564			1,532,874
360				194,839
15,117		18,739		296,702
3,567				299,902
				1,469,275
				9,765
			849,373	880,350
			500	1,636,496
<u>20,115</u>	<u>170,564</u>	<u>18,739</u>	<u>849,873</u>	<u>\$ 7,753,614</u>
				8,462
	68,469		5,585,119	5,789,990
			(5,533,238)	(5,668,140)
			(51,881)	(51,881)
		18,739		434,177
		(16,938)		(434,177)
	<u>68,469</u>	<u>1,801</u>		<u>78,431</u>
82,015	40,953			26,198
200,908	310,545		118	3,895,860
<u>\$ 282,923</u>	<u>\$ 351,498</u>	<u>\$ 0</u>	<u>\$ 118</u>	<u>\$ 3,922,058</u>
				8,462
\$ 283,065	\$ 357,949	\$	\$ 118	\$ 4,137,571
				8,462
<u>(142)</u>	<u>(6,451)</u>			<u>(223,975)</u>
<u>\$ 282,923</u>	<u>\$ 351,498</u>	<u>\$ 0</u>	<u>\$ 118</u>	<u>\$ 3,922,058</u>

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

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HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2017

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

E911 Fund - The primary purpose of this fund is to account for the dispatch expenses of the county. The primary source of receipts for this fund is the 911 telephone surcharge.

Federal Grant Fund - This fund is used to account for community development block grant expenses. The source of receipts is grants from the federal government.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Facilities Construction Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

D. Budgetary Information

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

E. Hancock County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Hancock 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 Hancock 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 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.

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

Note 2. Deposits (Continued)

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.

Note 3. Transfers

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

	General Fund	Federal Grant Fund	Total Transfers In
General Fund	\$	\$ 16,938	\$ 16,938
Road Fund	380,000		380,000
Jail Fund	18,500		18,500
Federal Grant Fund	18,739		18,739
Total Transfers Out	<u>\$ 417,239</u>	<u>\$ 16,938</u>	<u>\$ 434,177</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. Asset Held For Resale

Asset held for resale activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Asset Held for Resale Vehicle	\$ 134,902	\$ 136,402	\$ 134,902	\$ 136,402
Totals	<u>\$ 134,902</u>	<u>\$ 136,402</u>	<u>\$ 134,902</u>	<u>\$ 136,402</u>

Note 5. Long-term Debt

A. Hancock County Public Improvement Corporation Lease Revenue Bonds (Judicial Center Project), Series 2009

The Hancock County Fiscal Court issued Lease Revenue Bonds (Judicial Center Project), Series 2009 for \$11,625,000 for the purpose of acquiring, construction, and furnishing a new Judicial Center. The bonds require yearly principal payments due August 1 and interest payments due February 1 and August 1 with a variable interest rate. The bonds will mature on August 1, 2028. As of June 30, 2017, the principal balance was \$2,945,000. Future principal and interest requirements are:

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

Note 5. Long-term Debt (Continued)

A. Hancock County Public Improvement Corporation Lease Revenue Bonds (Judicial Center Project), Series 2009 (Continued)

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 550,000	\$ 91,513
2019	570,000	74,356
2020	585,000	55,213
2021	610,000	34,300
2022	630,000	11,813
Totals	<u>\$ 2,945,000</u>	<u>\$ 267,195</u>

B. Hancock County Public Improvement Corporation Lease Revenue Bonds (Judicial Center Project), Series 2017

On May 1, 2017, the Hancock County Fiscal Court entered into \$5,585,119 Public Improvement Corporation Lease Revenue Bonds with J.P. Morgan Chase for the purpose of financing the current Public Improvement Corporation Lease Revenue Bonds, Series 2009 dated August 12, 2009, for the Hancock County Judicial Center Project. Principal payments are due August 1 and the interest payments are due February 1 and August 1 with a 2.23 percent interest rate. The bonds will mature on August 1, 2028. As of June 30, 2017, the principal balance was \$5,585,119. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$	\$ 93,411
2019		124,548
2020		124,548
2021		124,548
2022	74,120	123,722
2023-2027	3,844,708	403,856
2028-2029	1,666,291	37,374
Totals	<u>\$ 5,585,119</u>	<u>\$ 1,032,007</u>

C. Ambulance

The Hancock County Fiscal Court borrowed \$60,000 from Green River Area Development District for the purchase of an ambulance effective December 26, 2013. Terms of the agreement stipulate a four-year repayment schedule with an interest rate of 2.44 percent. As of June 30, 2017, the principal balance was \$14,669. Future principal and interest requirements are:

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

Note 5. Long-term Debt (Continued)

C. Ambulance (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2018	\$ 14,669	\$ 386
Totals	<u>\$ 14,669</u>	<u>\$ 386</u>

D. 2016 Mack Truck Lease

The Hancock County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to finance the purchase of a Mack dump truck on September 30, 2016. The lease is for \$136,402 at a 3.25 percent interest rate. Interest payments are due by the 20th of each month. As of June 30, 2017, the principal balance was \$136,402. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2018	\$ 136,402	\$ 3,235
Totals	<u>\$ 136,402</u>	<u>\$ 3,235</u>

E. Loader

The Hancock County Fiscal Court borrowed \$100,000 from Green River Area Development District for the purchase of a loader effective December 3, 2014. Terms of the agreement stipulate a four-year repayment schedule with an interest rate of 2.44 percent. As of June 30, 2017, the principal balance was \$50,320. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2018	\$ 25,129	\$ 1,414
2019	<u>25,191</u>	<u>708</u>
Totals	<u>\$ 50,320</u>	<u>\$ 2,122</u>

F. Fire Truck

The Hancock County Fiscal Court borrowed \$68,469 from Green River Area Development District for the purchase of a fire truck effective January 11, 2017. Terms of the agreement stipulate a four-year repayment schedule with an interest rate of 2.81 percent. As of June 30, 2017, the principal balance was \$68,469. Future principal and interest requirements are:

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

Note 5. Long-term Debt (Continued)

F. Fire Truck (Continued)

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 17,583	\$ 753
2019	16,906	1,430
2020	17,382	955
2021	16,598	466
Totals	<u>\$ 68,469</u>	<u>\$ 3,604</u>

G. 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
Hancock County Revenue Bonds (2009)	\$ 8,660,000	\$	\$ 5,715,000	\$ 2,945,000	\$ 550,000
Hancock County Revenue Bonds (2017)		5,585,119		5,585,119	
Financing Obligations	239,607	204,871	174,618	269,860	193,783
Total Long-term Debt	<u>\$ 8,899,607</u>	<u>\$ 5,789,990</u>	<u>\$ 5,889,618</u>	<u>\$ 8,799,979</u>	<u>\$ 743,783</u>

Note 6. Employee Retirement System

Plan Description

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 regular full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

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.

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

Note 6. Employee Retirement System (Continued)

Plan Description (Continued)

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.

The county's contribution for FY 2015 was \$396,239, FY 2016 was \$373,729, and FY 2017 was \$427,380.

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.

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.

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

Note 7. Deferred Compensation

During fiscal year 2003, the Hancock 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.

Note 8. Health Reimbursement Account and Flexible Spending Account

The Hancock County Fiscal Court established a flexible spending account to provide employees an additional health benefit. The county has contracted with BMS, LLC. Inc., a third-party administrator to administer the plan. The plan provides \$3,000 each year to go toward the employee's deductible. Employees must pay \$2,000 of their deductible first and once this has been done they can request reimbursement up to \$3,000. In order to receive the reimbursement of \$3,000, the employee must provide the county treasurer with documentation that the \$2,000 has been paid and sign a form requesting reimbursement.

Note 9. Insurance

For the fiscal year ended June 30, 2017, the Hancock 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 10. Landfill Closure and Post-Closure Costs

The Hancock County Landfill was closed on June 20, 1995. The fiscal court must comply with established state and federal landfill closure and post-closure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. Estimated final date for maintenance and monitoring is 2028. Estimated post-closure costs total \$277,970 as of June 30, 2017, or \$19,270 per year. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. It is anticipated that post-closure costs will be paid out of the general fund to the extent that funds are available with any excess costs being funded using long-term borrowing.

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

Note 11. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to various entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Hancock County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement.

Note 12. Prior Period Adjustments

The general fund beginning balance was restated by \$46,821 to correct an error in the prior year report. The payroll revolving amount was incorrectly stated. The E911 fund beginning balance was restated by \$700 due to prior year adjustments.

Note 13. Payroll Revolving Account

The payroll revolving account to be included in the general fund for financial reporting purposes is as follows:

Payroll Revolving Account prior year balance 6/30/2016	\$ 46,823
Prior Period Adjustment (Note 12)	(46,821)
Rounding Adjustment	<u>(2)</u>
Payroll Revolving Account as adjusted at 6/30/2016	0
Payroll Revolving Account balance at 6/30/2017	<u>8,462</u>
Net Change	<u><u>\$ 8,462</u></u>

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

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HANCOCK 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	\$ 3,089,347	\$ 3,184,847	\$ 4,054,722	\$ 869,875
In Lieu Tax Payments	10,200	10,200	10,171	(29)
Excess Fees	126,400	141,400	140,916	(484)
Licenses and Permits	26,050	26,050	13,416	(12,634)
Intergovernmental	515,772	545,772	366,270	(179,502)
Charges for Services	238,218	238,218	277,939	39,721
Miscellaneous	297,630	461,630	481,219	19,589
Interest	1,600	1,600	1,981	381
Total Receipts	<u>4,305,217</u>	<u>4,609,717</u>	<u>5,346,634</u>	<u>736,917</u>
DISBURSEMENTS				
General Government	1,564,273	1,646,300	1,433,411	212,889
Protection to Persons and Property	1,191,558	1,350,168	1,251,618	98,550
General Health and Sanitation	203,019	224,432	194,479	29,953
Social Services	186,418	283,639	262,846	20,793
Recreation and Culture	362,998	386,315	296,335	89,980
Airports	10,000	10,000	9,765	235
Debt Service	20,000	20,000		20,000
Administration	2,104,434	2,926,346	1,438,052	1,488,294
Total Disbursements	<u>5,642,700</u>	<u>6,847,200</u>	<u>4,886,506</u>	<u>1,960,694</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,337,483)</u>	<u>(2,237,483)</u>	<u>460,128</u>	<u>2,697,611</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			16,938	16,938
Transfers To Other Funds	(721,000)	(721,000)	(417,239)	303,761
Total Other Adjustments to Cash (Uses)	<u>(721,000)</u>	<u>(721,000)</u>	<u>(400,301)</u>	<u>320,699</u>
Net Change in Fund Balance	(2,058,483)	(2,958,483)	59,827	3,018,310
Fund Balance - Beginning (Restated)	<u>2,058,483</u>	<u>2,958,483</u>	<u>3,026,672</u>	<u>68,189</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,086,499</u>	<u>\$ 3,086,499</u>

HANCOCK 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	\$ 1,101,884	\$ 1,342,284	\$ 949,479	\$ (392,805)
Miscellaneous	143,100	236,100	186,382	(49,718)
Interest	1,000	1,000	423	(577)
Total Receipts	<u>1,245,984</u>	<u>1,579,384</u>	<u>1,136,284</u>	<u>(443,100)</u>
DISBURSEMENTS				
Roads	1,442,021	1,685,936	1,469,275	216,661
Debt Service	194,796	195,741	30,977	164,764
Administration	469,375	732,915	180,945	551,970
Total Disbursements	<u>2,106,192</u>	<u>2,614,592</u>	<u>1,681,197</u>	<u>933,395</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(860,208)</u>	<u>(1,035,208)</u>	<u>(544,913)</u>	<u>490,295</u>
Other Adjustments to Cash (Uses)				
Loan Proceeds			136,402	(136,402)
Loan Payoff			(134,902)	134,902
Transfers From Other Funds	550,000	550,000	380,000	170,000
Total Other Adjustments to Cash (Uses)	<u>550,000</u>	<u>550,000</u>	<u>381,500</u>	<u>168,500</u>
Net Change in Fund Balance	(310,208)	(485,208)	(163,413)	321,795
Fund Balance - Beginning	<u>310,208</u>	<u>485,208</u>	<u>350,577</u>	<u>(134,631)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 187,164</u>	<u>\$ 187,164</u>

HANCOCK 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	\$ 85,000	\$ 93,000	\$ 92,575	\$ (425)
Charges for Services	19,000	21,000	13,826	(7,174)
Miscellaneous	1,000	1,000	73	(927)
Total Receipts	<u>105,000</u>	<u>115,000</u>	<u>106,474</u>	<u>(8,526)</u>
DISBURSEMENTS				
Protection to Persons and Property	245,672	246,187	109,621	136,566
Administration	33,328	46,813	16,999	29,814
Total Disbursements	<u>279,000</u>	<u>293,000</u>	<u>126,620</u>	<u>166,380</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(174,000)</u>	<u>(178,000)</u>	<u>(20,146)</u>	<u>157,854</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	171,000	171,000	18,500	(152,500)
Total Other Adjustments to Cash (Uses)	<u>171,000</u>	<u>171,000</u>	<u>18,500</u>	<u>(152,500)</u>
Net Change in Fund Balance	(3,000)	(7,000)	(1,646)	5,354
Fund Balance - Beginning	3,000	7,000	7,040	40
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,394</u>	<u>\$ 5,394</u>

HANCOCK 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	\$ 48,600	\$ 82,600	\$ 101,805	\$ 19,205
Miscellaneous Revenues	100	100		(100)
Interest	500	500	325	(175)
Total Receipts	<u>49,200</u>	<u>83,200</u>	<u>102,130</u>	<u>18,930</u>
DISBURSEMENTS				
Protection to Persons and Property	5,000	5,000	1,071	3,929
General Health and Sanitation	3,300	3,300	360	2,940
Social Services	21,950	21,817	15,117	6,700
Recreation and Culture	5,950	6,187	3,567	2,620
Roads	188,000	246,896		246,896
Total Disbursements	<u>224,200</u>	<u>283,200</u>	<u>20,115</u>	<u>263,085</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(175,000)</u>	<u>(200,000)</u>	<u>82,015</u>	<u>282,015</u>
Net Change in Fund Balance	(175,000)	(200,000)	82,015	282,015
Fund Balance - Beginning	<u>175,000</u>	<u>200,000</u>	<u>200,908</u>	<u>908</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 282,923</u>	<u>\$ 282,923</u>

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

	E911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 26,700	\$ 26,700	\$ 26,805	\$ 105
Intergovernmental	70,000	85,000	115,834	30,834
Interest	300	300	409	109
Total Receipts	<u>97,000</u>	<u>112,000</u>	<u>143,048</u>	<u>31,048</u>
DISBURSEMENTS				
Protection to Persons and Property	339,000	422,000	170,564	251,436
Total Disbursements	<u>339,000</u>	<u>422,000</u>	<u>170,564</u>	<u>251,436</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(242,000)</u>	<u>(310,000)</u>	<u>(27,516)</u>	<u>282,484</u>
Other Adjustments to Cash (Uses)				
Loan Proceeds			68,469	68,469
Total Other Adjustments to Cash (Uses)			<u>68,469</u>	<u>68,469</u>
Net Change in Fund Balance	(242,000)	(310,000)	40,953	350,953
Fund Balance - Beginning	242,000	310,000	310,545	545
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 351,498</u>	<u>\$ 351,498</u>

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

FEDERAL GRANT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 371,000	\$ 371,000	\$ 16,938	(354,062)
Total Receipts	<u>371,000</u>	<u>371,000</u>	<u>16,938</u>	<u>(354,062)</u>
DISBURSEMENTS				
Social Services	371,000	371,000	18,739	352,261
Total Disbursements	<u>371,000</u>	<u>371,000</u>	<u>18,739</u>	<u>352,261</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>(1,801)</u>	<u>(1,801)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			18,739	18,739
Transfers To Other Funds			<u>(16,938)</u>	<u>(16,938)</u>
Total Other Adjustments to Cash (Uses)			<u>1,801</u>	<u>1,801</u>
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

HANCOCK 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.

Note 2. Reconciliation of the General Fund

Reconciliation of the General Fund

Intergovernmental-Budgetary Basis	\$ (400,301)
To adjust for change in Payroll Revolving Account	<u>8,462</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ (391,839)</u>
Ending Balance - Budgetary Basis	\$ 3,086,499
To adjust for Payroll Revolving Account	<u>8,462</u>
Total Ending Balance - Regulatory Basis	<u>\$ 3,094,961</u>

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HANCOCK COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

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HANCOCK 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:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land and Buildings	\$ 15,776,762	\$	\$	\$15,776,762
Vehicles and Equipment	2,817,821	398,407	229,417	2,986,811
Other Equipment	2,580,736	11,318		2,592,054
Infrastructure	<u>4,853,467</u>	<u>454,786</u>		<u>5,308,253</u>
 Total Capital Assets	 <u>\$ 26,028,786</u>	 <u>\$ 864,511</u>	 <u>\$ 229,417</u>	 <u>\$26,663,880</u>

HANCOCK COUNTY
NOTE TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2017

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, other equipment, vehicles, 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 supplementary 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	10-25
Buildings and Improvements	\$ 10,000	10-40
Other Equipment	\$ 5,000	5-10
Vehicles	\$ 7,500	5-10
Infrastructure - Roads	\$ 10,000	10-25
Infrastructure - Bridges	\$ 5,000	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***

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The Honorable Jack B. McCaslin, Hancock County Judge/Executive
Members of the Hancock 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 Hancock County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Hancock County Fiscal Court's financial statement and have issued our report thereon dated April 17, 2018.

Internal Control Over Financial Reporting

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

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

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

Views of Responsible Official and Planned Corrective Action

Hancock 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,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, KY

April 17, 2018

**HANCOCK COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

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HANCOCK COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended June 30, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Fiscal Court Does Not Have Adequate Controls Over Credit Card Transactions

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The Hancock County Fiscal Court does not have adequate internal controls over credit card transactions. One credit card transaction was missing an itemized invoice. Good internal controls dictate that adequate supporting documentation be maintained. These deficiencies over credit card disbursements occurred because of the fiscal court's lack of internal controls and oversight. We recommend the county develop internal control procedures to ensure all employees know to turn in an itemized invoice when paying with the credit card.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Hancock County has procedures in place and will adhere to them the best of their ability.

2017-002 The Fiscal Court Lacks Segregation Of Duties Over Cash, Receipts, And Payroll

This is a repeat finding and was included in the prior year audit report as finding 2016-003. The county treasurer prepares reports for submission to the Department for Local Government, makes cash transfers between funds, and performs the bank reconciliations for all bank accounts. The county treasurer also processes all payroll transactions and prepares all payroll related reports. The county has compensating controls in place over payroll. The treasurer's assistant reviews all timesheets and prepares payroll. The county treasurer reviews the payroll and prepares the payroll reports and contacts the bank to initiate the direct deposit of payroll.

Segregation of duties over these functions, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting.

According to the county, due to the small size and budget restrictions, the fiscal court has limited options for establishing segregation of duties.

Lack of segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government. In addition, too much control by one individual without oversight can lead to undetected irregularities.

We recommend the county divide the responsibilities for cash, receipts, and payroll among the county treasurer and other employees of the county in order to achieve an appropriate level of segregation of duties or implement compensating controls over these areas.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: As there are only two people in the Treasurer's department, we have implemented numerous compensating controls to help with this matter and continue to do so to improve segregation of duties.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 The Fiscal Court Did Not Maintain Documentation For Employment Packages

This is a repeat finding and was included in the prior year audit report as finding 2016-004. The Hancock County Fiscal Court did not have documentation to support the employment package for the EMS Director. The EMS Director is receiving multiple benefits as part of his employment package including the use of a county vehicle and employee plus spouse insurance coverage.

There was no documentation to support the EMS Director's employment package because of a lack of oversight by the county judge/executive.

By not maintaining documentation of employment packages employees could be receiving payments or benefits that they are not entitled to receive.

Good internal controls dictate that all employment packages should be in writing and all documentation should be maintained by the fiscal court to ensure that all employees are receiving the appropriate benefits.

We recommend the fiscal court obtain all employment packages in writing and maintain the documentation.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This issue has been resolved.

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

HANCOCK COUNTY FISCAL COURT

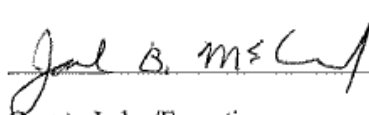
**For The Fiscal Year Ended
June 30, 2017**

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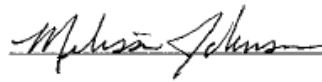
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE *PROGRAM*
HANCOCK COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

The Hancock 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