

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

**For The Fiscal Year Ended
June 30, 2016**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
HOPKINS COUNTY FISCAL COURT

June 30, 2016

The Auditor of Public Accounts has completed the audit of the Hopkins County Fiscal Court for the fiscal year ended June 30, 2016.

We have issued an unmodified opinion, based on our audit, of the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Hopkins County Fiscal Court.

Financial Condition:

The Hopkins County Fiscal Court had total receipts of \$23,599,893 and disbursements of \$23,391,840 in fiscal year 2016. This resulted in a total ending fund balance of \$5,797,289, which is an increase of \$208,053 from the prior year.

Findings:

- 2016-001 Two Of Hopkins County Fiscal Court Off-Site Locations Lack Adequate Internal Controls Over Receipts
- 2016-002 The Hopkins County Fiscal Court Does Not Have Adequate Internal Controls Over Credit Card Disbursements
- 2016-003 Two Of Hopkins County Fiscal Court Off-Site Locations Are Not Making Daily Deposits

Deposits:

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Donald E. Carroll, Hopkins County Judge/Executive
Members of the Hopkins 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 Hopkins County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Hopkins 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 Hopkins 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 Hopkins County Fiscal Court as of June 30, 2016, 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 Hopkins County Fiscal Court as of June 30, 2016, 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 Hopkins County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017, on our consideration of the Hopkins 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 Hopkins 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:

- 2016-001 Two Of Hopkins County Fiscal Court Off-Site Locations Lack Adequate Internal Controls Over Receipts
- 2016-002 The Hopkins County Fiscal Court Does Not Have Adequate Internal Controls Over Credit Card Disbursements
- 2016-003 Two Of Hopkins County Fiscal Court Off-Site Locations Are Not Making Daily Deposits

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

June 28, 2017

HOPKINS COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Donald E. Carroll	County Judge/Executive
Karol Welch	Magistrate
Linda P. Todd	Magistrate
Vicki Dickerson Thomison	Magistrate
Jack Whitfield, Jr.	Magistrate
Billy N. Parrish	Magistrate
Charlie G. Beshears	Magistrate
Hannah Myers	Magistrate

Other Elected Officials:

Byron Hobgood	County Attorney
Joe Blue	Jailer
Keenan Cloern	County Clerk
Karen McKnight	Circuit Court Clerk
Matt Sanderson	Sheriff
Pam Love	Property Valuation Administrator
Dennis Mayfield	Coroner

Appointed Personnel:

Cindy Jones	County Treasurer
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**HOPKINS COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2016

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

For The Year Ended June 30, 2016

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 7,849,841	\$	\$
Licenses and Permits	69,465		
Intergovernmental	2,915,849	2,911,495	3,582,775
Charges for Services			211,197
Miscellaneous	209,662	13,107	140,620
Interest	7,125	1,773	1,116
Total Receipts	<u>11,051,942</u>	<u>2,926,375</u>	<u>3,935,708</u>
DISBURSEMENTS			
General Government	5,507,283		
Protection to Persons and Property	110,872		3,815,263
General Health and Sanitation	400		
Social Services			42,045
Recreation and Culture			
Roads		2,390,604	
Debt Service		126,274	966,316
Capital Projects	8,400	1,008,821	
Administration	1,684,657	535,789	997,206
Total Disbursements	<u>7,311,612</u>	<u>4,061,488</u>	<u>5,820,830</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>3,740,330</u>	<u>(1,135,113)</u>	<u>(1,885,122)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds		1,195,000	1,940,000
Transfers To Other Funds	(4,095,000)		
Total Other Adjustments to Cash (Uses)	<u>(4,095,000)</u>	<u>1,195,000</u>	<u>1,940,000</u>
Net Change in Fund Balance	(354,670)	59,887	54,878
Fund Balance - Beginning (Restated)	1,644,742	348,522	546,119
Fund Balance - Ending	<u>\$ 1,290,072</u>	<u>\$ 408,409</u>	<u>\$ 600,997</u>
Composition of Fund Balance			
Bank Balance	\$ 1,352,413	\$ 472,877	\$ 669,020
Plus: Deposits In Transit			
Less: Outstanding Checks	(62,341)	(64,468)	(68,023)
Fund Balance - Ending	<u>\$ 1,290,072</u>	<u>\$ 408,409</u>	<u>\$ 600,997</u>

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

HOPKINS COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016
(Continued)

Budgeted Funds		
Local Government Economic Assistance Fund	Local Government Economic Development Fund	Contingency Fund
\$	\$	\$
2,400		
2,673,024	407,136	30,581
207,797		
150,610		
1,780		9,037
<u>3,035,611</u>	<u>407,136</u>	<u>39,618</u>
978,165	407,136	
300,000		
1,363,962		
103,701		
562,793		
8,979		
<u>353,376</u>		
<u>3,670,976</u>	<u>407,136</u>	
<u>(635,365)</u>		<u>39,618</u>
960,000		
<u>960,000</u>		
324,635		39,618
269,526		2,544,496
<u>\$ 594,161</u>	<u>\$ 0</u>	<u>\$ 2,584,114</u>
\$ 629,724	\$ 43,255	\$ 2,584,114
<u>(35,563)</u>	<u>(43,255)</u>	
<u>\$ 594,161</u>	<u>\$ 0</u>	<u>\$ 2,584,114</u>

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

HOPKINS COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016
(Continued)

	<u>Unbudgeted Funds</u>		
	<u>Public Facilities Construction Corporation Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 7,849,841
Licenses and Permits			71,865
Intergovernmental	1,512,450	15,010	14,048,320
Charges for Services		675,526	1,094,520
Miscellaneous		106	514,105
Interest	17	394	21,242
Total Receipts	<u>1,512,467</u>	<u>691,036</u>	<u>23,599,893</u>
DISBURSEMENTS			
General Government			6,892,584
Protection to Persons and Property			4,226,135
General Health and Sanitation			1,364,362
Social Services			145,746
Recreation and Culture		607,348	1,170,141
Roads			2,399,583
Debt Service	1,511,950		2,604,540
Capital Projects			1,017,221
Administration	500		3,571,528
Total Disbursements	<u>1,512,450</u>	<u>607,348</u>	<u>23,391,840</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>17</u>	<u>83,688</u>	<u>208,053</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds			4,095,000
Transfers To Other Funds			<u>(4,095,000)</u>
Total Other Adjustments to Cash (Uses)			
Net Change in Fund Balance	17	83,688	208,053
Fund Balance - Beginning (Restated)	146,789	89,042	5,589,236
Fund Balance - Ending	<u>\$ 146,806</u>	<u>\$ 172,730</u>	<u>\$ 5,797,289</u>
Composition of Fund Balance			
Bank Balance	\$ 146,806	\$ 200,723	\$ 6,098,932
Plus: Deposits In Transit		4,116	4,116
Less: Outstanding Checks		<u>(32,109)</u>	<u>(305,759)</u>
Fund Balance - Ending	<u>\$ 146,806</u>	<u>\$ 172,730</u>	<u>\$ 5,797,289</u>

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

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HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (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.

Local Government Economic Development 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. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Contingency Fund - The primary purpose of this fund is to set aside funds from general operations to act as a savings account for the fiscal court and for special projects when they arise.

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 construction costs of the Judicial Center. This fund is also used to account for debt service requirements of the First Mortgage Revenue Bonds, Series 2010. The Department for Local Government does not require the fiscal court to report or budget this fund.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary 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.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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

The State Local Finance Officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

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.

E. Hopkins County Elected Officials

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

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

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, 2016, 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 2016.

	General Fund	Total Transfers In
Road Fund	\$ 1,195,000	\$ 1,195,000
Jail Fund	1,940,000	1,940,000
LGEA Fund	960,000	960,000
Total Transfers Out	<u>\$ 4,095,000</u>	<u>\$ 4,095,000</u>

Reason for transfers:

To move resources from the general fund, for budgetary purposes, to the funds that will expend them.

Note 4. Receivable

The county loaned \$500,000 to the Hopkins County - Madisonville Public Library on January 7, 2014, for the purpose of making improvements to real estate. Terms of the agreement stipulate a 20-year repayment schedule at 1.175 percent interest. Records indicate Hopkins County - Madisonville Public Library is in substantial compliance with this requirement. As of June 30, 2016, principal balance due was \$450,000.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 5. Long-term Debt

A. First Mortgage Revenue Bonds (Judicial Center Project), Series 2010

On June 1, 2010, the Hopkins County Public Properties Corporation issued \$19,410,000 of First Mortgage Revenue Bonds (Judicial Center Project), Series 2010, for the purpose of acquiring, constructing, and equipping a new Judicial Center. The bonds will mature on June 20, 2027. Interest is payable each June 1 and December 1. As of June 30, 2016, bonds outstanding were \$13,530,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 1,045,000	\$ 466,450
2018	1,075,000	437,713
2019	1,105,000	405,463
2020	1,140,000	372,312
2021	1,180,000	335,262
2022-2026	6,530,000	1,034,500
2027	1,455,000	58,200
Totals	<u>\$ 13,530,000</u>	<u>\$ 3,109,900</u>

B. General Obligation Lease, Series 2014

On December 10, 2014, a lease agreement was entered into between a bank and Hopkins County Fiscal Court for the purpose of refinancing the Series 2005 General Obligation Refunding Bonds. In order to meet the outstanding bonds as they come due, the proceeds of the lease were used to establish a redemption fund in the amount of \$5,088,375.

The lease provides that it will be in effect for a term commencing on December 10, 2014, and ending on February 1, 2020, at an annual interest rate of 1.49 percent. As of June 30, 2016, bonds outstanding were \$3,473,943. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2017	\$ 845,000	\$ 51,778
2018	865,000	39,187
2019	875,000	26,298
2020	888,943	13,261
Totals	<u>\$ 3,473,943</u>	<u>\$ 130,524</u>

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 5. Long-term Debt (Continued)

C. Gradall Excavator

On July 31, 2014, the fiscal court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the sum of \$364,000 at a 2.445 percent fixed interest rate. The financing obligation was for the acquisition of a Gradall Excavator. The maturity date of the obligation is August 20, 2017. The balance of the financing obligation as of June 30, 2016, was \$144,181. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 123,394	\$ 2,147
2018	20,787	64
Totals	<u>\$ 144,181</u>	<u>\$ 2,211</u>

D. HVAC

On November 18, 2014, the fiscal court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program as administrator and PNC Equipment Finance, LLC as lessor in the sum of \$495,000 at a 3.20 percent effective interest rate. The financing obligation was for acquisition, installation, and equipping of a HVAC system. The maturity date of the obligation is June 20, 2015. The balance of financing obligation as of June 30, 2016, was \$454,019. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 45,745	\$ 13,861
2018	46,856	12,380
2019	47,993	10,865
2020	49,157	9,312
2021	50,350	7,721
2022-2025	213,918	14,195
Totals	<u>\$ 454,019</u>	<u>\$ 68,334</u>

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 5. Long-term Debt (Continued)

E. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 14,550,000	\$	\$1,020,000	\$13,530,000	\$ 1,045,000
Financing Obligations	5,069,263		997,120	4,072,143	1,014,139
Total Long-term Debt	<u>\$ 19,619,263</u>	<u>\$ 0</u>	<u>\$ 2,017,120</u>	<u>\$17,602,143</u>	<u>\$ 2,059,139</u>

Note 6. Commitment Debt

A. Ambulance Service Contract

The Medical Center Ambulance Service, Inc. (MCAS) operates under a lease with Hopkins County. The term of the lease is for one year, and the lease is automatically renewed on a year-to-year basis unless terminated by one of the parties. Under the terms of the lease for the first year, the county is required to furnish the necessary number of ambulances required for the operation of the ambulance service and is to reimburse MCAS for the support of the county. MCAS has agreed to provide suitable and necessary ambulance service on a 24 hour basis to the residents of Hopkins County and to other persons requiring such service while in Hopkins County.

On January 1, 2012, the Hopkins County Fiscal Court entered into a lease and contract with MCAS. The county agreed to furnish to MCAS, for the sum of one dollar per year, the existing inventory of fully serviceable ambulances. The term of the agreement is for a period of four years unless sooner cancelled or terminated as provided in the contract. This agreement shall be automatically extended for like periods of one year each, unless either party gives the other party 30 days written notice prior to the expiration of the current term. MCAS agreed to supply suitable and necessary ambulance service to the residents of Dawson Springs, Kentucky, at its Dawson Springs location and the remainder of Hopkins County, Kentucky through its Madisonville location. The county agreed to provide financial support, as budgeted by the Hopkins County Fiscal Court, which budget shall be no less than current amount of \$150,000 annually, which shall be paid to MCAS in cash payments, not less frequently that three payments per year of \$50,000.

B. Hopkins County Regional Landfill

The Hopkins County Regional Landfill entered into an agreement with Hopkins County on October 31, 2011. Under the terms of the agreement, the Hopkins County Regional Landfill is to provide waste management services for the county and citizens of Hopkins County, Kentucky. The Hopkins County Regional Landfill has also agreed to pay licensing fees to the county as mandated in Ordinance 2006-10. As of June 30, 2016, both parties were in compliance with this agreement.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 6. Commitment Debt (Continued)

C. South Main Sewer Project - Interlocal Cooperation Agreement

On December 23, 2009, Hopkins County (county) entered into an interlocal cooperation agreement with the City of Madisonville (city) for the construction, maintenance, and operation of the South Main Sewer Project. The city has secured financing for this project from the Kentucky Infrastructure Authority in the form of an ARRA loan in the amount of \$3,800,000 bearing interest at the rate of two percent per annum to be repaid over a term of 20 years. The county has agreed to provide financial assistance to the city to help pay a portion of the debt service incurred by the city. The county has agreed to pay the city the sum of \$110,000 per year for a period of 20 years payable in equal semi-annual installments of \$55,000 on or before June 1 and December 1 of each year beginning May 15, 2010.

Note 7. Employee Retirement System

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

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 the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

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. The county's contribution rate for hazardous employees was 32.95 percent.

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 account. Members contribute five percent (nonhazardous) and eight percent (hazardous) of their annual creditable compensation and 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 member's account is credited with a four percent (nonhazardous) and seven and one-half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2014 was \$1,523,045, FY 2015 was \$1,418,548, and FY 2016 was \$1,337,381.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. 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.

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

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

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

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.

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, such employee's spouse receives 10 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/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.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 8. Deferred Compensation

In February 2000, the Hopkins 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 9. Flexible Spending Account

The Hopkins County Fiscal Court established a flexible spending account to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction.

Note 10. Insurance

For the fiscal year ended June 30, 2016, the Hopkins 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 11. Related Party Transaction

The Hopkins County Sheriff is on the board of directors for a company his father owns. The fiscal court spent \$7,995 with this company in fiscal year ending June 30, 2016.

Note 12. 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 Hopkins 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. As of June 30, 2016, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 13. Prior Period Adjustments

The beginning fund balance for the jail commissary fund was restated as follows:

	<u>Jail Commissary Fund</u>
Prior Year Ending Fund Balance	\$ 88,445
Adjustments:	
Prior Year Voided Checks	<u>597</u>
Beginning Fund Balance Restated	<u>\$ 89,042</u>

HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

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HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 6,688,000	\$ 7,268,000	\$ 7,849,841	\$ 581,841
Licenses and Permits	73,000	73,000	69,465	(3,535)
Intergovernmental	3,166,705	3,166,705	2,915,849	(250,856)
Miscellaneous	176,625	176,625	209,662	33,037
Interest	12,000	12,000	7,125	(4,875)
Total Receipts	<u>10,116,330</u>	<u>10,696,330</u>	<u>11,051,942</u>	<u>355,612</u>
DISBURSEMENTS				
General Government	5,157,513	5,801,078	5,507,283	293,795
Protection to Persons and Property	218,785	218,835	110,872	107,963
General Health and Sanitation	400	400	400	
Capital Projects	10,000	10,000	8,400	1,600
Administration	2,040,640	1,977,025	1,684,657	292,368
Total Disbursements	<u>7,427,338</u>	<u>8,007,338</u>	<u>7,311,612</u>	<u>695,726</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>2,688,992</u>	<u>2,688,992</u>	<u>3,740,330</u>	<u>1,051,338</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(4,488,992)</u>	<u>(4,488,992)</u>	<u>(4,095,000)</u>	<u>393,992</u>
Total Other Adjustments to Cash (Uses)	<u>(4,488,992)</u>	<u>(4,488,992)</u>	<u>(4,095,000)</u>	<u>393,992</u>
Net Change in Fund Balance	(1,800,000)	(1,800,000)	(354,670)	1,445,330
Fund Balance - Beginning	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,644,742</u>	<u>(155,258)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,290,072</u>	<u>\$ 1,290,072</u>

HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,780,184	\$ 2,780,184	\$ 2,911,495	\$ 131,311
Miscellaneous	1,500	1,500	13,107	11,607
Interest	1,500	1,500	1,773	273
Total Receipts	<u>2,783,184</u>	<u>2,783,184</u>	<u>2,926,375</u>	<u>143,191</u>
DISBURSEMENTS				
Roads	3,140,458	2,932,158	2,390,604	541,554
Debt Service	126,400	126,400	126,274	126
Capital Projects	750,000	1,025,000	1,008,821	16,179
Administration	697,500	630,800	535,789	95,011
Total Disbursements	<u>4,714,358</u>	<u>4,714,358</u>	<u>4,061,488</u>	<u>652,870</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,931,174)</u>	<u>(1,931,174)</u>	<u>(1,135,113)</u>	<u>796,061</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>1,531,174</u>	<u>1,531,174</u>	<u>1,195,000</u>	<u>(336,174)</u>
Total Other Adjustments to Cash (Uses)	<u>1,531,174</u>	<u>1,531,174</u>	<u>1,195,000</u>	<u>(336,174)</u>
Net Change in Fund Balance	(400,000)	(400,000)	59,887	459,887
Fund Balance - Beginning	<u>400,000</u>	<u>400,000</u>	<u>348,522</u>	<u>(51,478)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 408,409</u>	<u>\$ 408,409</u>

HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 3,444,800	\$ 3,444,800	\$ 3,582,775	\$ 137,975
Charges for Services	195,100	195,100	211,197	16,097
Miscellaneous	162,300	162,300	140,620	(21,680)
Interest	1,000	1,000	1,116	116
Total Receipts	<u>3,803,200</u>	<u>3,803,200</u>	<u>3,935,708</u>	<u>132,508</u>
DISBURSEMENTS				
Protection to Persons and Property	4,118,992	4,118,992	3,815,263	303,729
Social Services	360,000	360,000	42,045	317,955
Debt Service	964,221	966,321	966,316	5
Administration	1,116,500	1,114,400	997,206	117,194
Total Disbursements	<u>6,559,713</u>	<u>6,559,713</u>	<u>5,820,830</u>	<u>738,883</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,756,513)</u>	<u>(2,756,513)</u>	<u>(1,885,122)</u>	<u>871,391</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,156,513	2,156,513	1,940,000	(216,513)
Total Other Adjustments to Cash (Uses)	<u>2,156,513</u>	<u>2,156,513</u>	<u>1,940,000</u>	<u>(216,513)</u>
Net Change in Fund Balance	(600,000)	(600,000)	54,878	654,878
Fund Balance - Beginning	<u>600,000</u>	<u>600,000</u>	<u>546,119</u>	<u>(53,881)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 600,997</u>	<u>\$ 600,997</u>

HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
License and Permits	\$ 3,000	\$ 3,000	\$ 2,400	\$ (600)
Intergovernmental	2,955,000	3,688,809	2,673,024	(1,015,785)
Charges for Services	235,100	235,100	207,797	(27,303)
Miscellaneous	41,800	41,800	150,610	108,810
Interest	1,000	1,000	1,780	780
Total Receipts	<u>3,235,900</u>	<u>3,969,709</u>	<u>3,035,611</u>	<u>(934,098)</u>
DISBURSEMENTS				
General Government	937,822	1,515,381	978,165	537,216
Protection to Persons and Property	340,000	310,000	300,000	10,000
General Health and Sanitation	1,466,566	1,506,766	1,363,962	142,804
Social Services	102,594	105,094	103,701	1,393
Recreation and Culture	393,223	604,573	562,793	41,780
Roads	525,000	525,000	8,979	516,021
Capital Projects	100,000	100,000		100,000
Administration	472,000	404,200	353,376	50,824
Total Disbursements	<u>4,337,205</u>	<u>5,071,014</u>	<u>3,670,976</u>	<u>1,400,038</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,101,305)</u>	<u>(1,101,305)</u>	<u>(635,365)</u>	<u>465,940</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>801,305</u>	<u>801,305</u>	<u>960,000</u>	<u>158,695</u>
Total Other Adjustments to Cash (Uses)	<u>801,305</u>	<u>801,305</u>	<u>960,000</u>	<u>158,695</u>
Net Change in Fund Balance	(300,000)	(300,000)	324,635	624,635
Fund Balance - Beginning	<u>300,000</u>	<u>300,000</u>	<u>269,526</u>	<u>(30,474)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 594,161</u>	<u>\$ 594,161</u>

HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 1,000,000	\$ 1,000,000	\$ 407,136	\$ (592,864)
Total Receipts	<u>1,000,000</u>	<u>1,000,000</u>	<u>407,136</u>	<u>(592,864)</u>
DISBURSEMENTS				
General Government	<u>1,000,000</u>	<u>1,000,000</u>	<u>407,136</u>	<u>592,864</u>
Total Disbursements	<u>1,000,000</u>	<u>1,000,000</u>	<u>407,136</u>	<u>592,864</u>
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	CONTINGENCY FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 30,581	\$ 30,581	\$ 30,581	\$
Interest	8,500	8,500	9,037	537
Total Receipts	<u>39,081</u>	<u>39,081</u>	<u>39,618</u>	<u>537</u>
DISBURSEMENTS				
Administration	<u>2,547,081</u>	<u>2,547,081</u>		<u>2,547,081</u>
Total Disbursements	<u>2,547,081</u>	<u>2,547,081</u>		<u>2,547,081</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,508,000)</u>	<u>(2,508,000)</u>	<u>39,618</u>	<u>2,547,618</u>
Net Change in Fund Balance	(2,508,000)	(2,508,000)	39,618	2,547,618
Fund Balance - Beginning	<u>2,508,000</u>	<u>2,508,000</u>	<u>2,544,496</u>	<u>36,496</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,584,114</u>	<u>\$ 2,584,114</u>

HOPKINS COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

Note 1. Budgetary Information

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

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

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

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HOPKINS COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016

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HOPKINS COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (Restated)	Additions	Deletions	Ending Balance
Land	\$ 1,596,564	\$	\$	\$ 1,596,564
Buildings	35,101,315	978,656		36,079,971
Construction in Progress	2,476,924	1,082,321	978,655	2,580,590
Vehicles	2,667,615	107,098	144,205	2,630,508
Equipment*	5,679,798	75,790	203,790	5,551,798
Jail Commissary	184,928	57,172	42,686	199,414
Infrastructure	11,596,893	905,056		12,501,949
 Total Capital Assets	 \$ 59,304,037	 \$ 3,206,093	 \$ 1,369,336	 \$ 61,140,794

* The beginning balance for equipment was increased \$1,100 for prior year errors.

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

June 30, 2016

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	\$ 25,000	10-75
Building Improvements	\$ 25,000	10-75
Furniture and Fixtures	\$ 20,000	5-25
Machinery and Equipment	\$ 20,000	5-25
Vehicles	\$ 20,000	3
Infrastructure	\$ 20,000	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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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donald E. Carroll, Hopkins County Judge/Executive
Members of the Hopkins 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 Hopkins County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Hopkins County Fiscal Court's financial statement and have issued our report thereon dated June 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Hopkins 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 Hopkins County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hopkins 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 a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 deficiency described in the accompanying Schedule of Findings and Responses as item 2016-001 to be a material weakness.



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)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2016-002 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Hopkins County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other 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 2016-003.

Views of Responsible Official And Planned Corrective Action

Hopkins 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,



Mike Harmon
Auditor of Public Accounts

June 28, 2017

**HOPKINS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2016

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HOPKINS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended June 30, 2016

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-001 Two Of Hopkins County Fiscal Court Off-Site Locations Lack Adequate Internal Controls Over Receipts

The Hopkins County Fiscal Court sanitation department and occupational tax collections lack adequate controls over receipts. The sanitation department has one employee gather receipts, batch receipts, and lock batched receipts in a lockbox. Receipts for the sanitation department are deposited monthly; however, during testing auditors noted one deposit included two months. There is no documentation maintained in order for employees to reconcile what is received to what is deposited.

The occupational tax administrator collects receipts, enters them into an excel spreadsheet, and batches receipts to be deposited by the county treasurer. While the treasurer does review the excel spreadsheet prepared by the occupational tax administrator, this review and reconciliation is not documented. Also, due to a lack of review of the tax roll and area businesses, the tax roll may not be complete. Through our review of a sample of area businesses, we found seven businesses that were not on the county's tax roll listing; however, there may be more businesses missing from the tax roll.

The county indicated this lack of internal controls is a result of a limited budget, which restricts the number of qualified employees the fiscal court can hire for accounting functions. Without the proper internal controls the fiscal court creates the opportunity for undetected misappropriation of assets and inaccurate financial reporting to occur. Good internal controls dictate that duties over the various accounting functions such as deposit preparation, checkout sheet preparation, and collection of cash should be segregated in order to reduce the risk of undetected misappropriation of assets and inaccurate financial reporting. Good internal controls also dictate that accurate and sufficient records be maintained to ensure all fees collected are deposited by the county treasurer.

We recommend the sanitation department and the occupational tax administrator implement internal controls over daily transactions and fees collected. We also recommend that the occupational tax administrator review the tax roll listing for completeness.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Sanitation Department has already started making daily deposits if there are funds to be deposited. The Fiscal Court Finance Committee will be addressing the lack of controls and will recommend procedures to reduce the probability of inaccurate reporting.

The Treasurer does review the Excel spreadsheet that is kept for the occupational and net profit taxes. However, this is not the official record of taxes collected. That is kept on the financial software that the County uses. The Treasurer posts the revenue received to this software and it is reconciled to the spreadsheet by the Tax Administrator. The Tax Administrator does not have the time for tax collection and enforcement and there is no way to determine if there may be businesses out in the County that may not have gotten a business license. However, the Fiscal Court will be informed of this issue and will address it.

HOPKINS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
 Fiscal Year Ended June 30, 2016
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2016-002 The Hopkins County Fiscal Court Does Not Have Adequate Controls Over Credit Card Disbursements

The Hopkins County Fiscal Court does not have adequate internal controls over credit card disbursements. The following control deficiencies were noted:

- Three credit transactions did not have adequate supporting documentation (itemized invoices).
- Three transactions had a missing invoice.
- Twelve hotel bills included state tax payments when the county should receive a government rate and be sales tax exempt.

These deficiencies over credit card disbursements occurred because of the fiscal court's lack of internal controls and oversight. By failing to maintain adequate documentation, the fiscal court is increasing the risk of paying invoices for goods or services that are unallowable or that were not provided to the county. Good internal controls dictate that adequate supporting documentation be maintained for all disbursements and credit card transactions. All vendor invoices and receipts should be maintained, including any additional supporting documentation, and agreed to the corresponding purchase order and reports. We recommend the fiscal court develop procedures to ensure that credit card transactions are properly supported.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This Fiscal Court will be developing a Credit Card Policy that will create controls over credit card purchases.

STATE LAWS AND REGULATIONS:

2016-003 Two Of Hopkins County Fiscal Court Off-Site Locations Are Not Making Daily Deposits

The Hopkins County Fiscal Court did not make daily deposits for sanitation or occupational tax collections. The deposits for occupational tax are being batched for deposit as they are processed, but the payments are not deposited daily. The sanitation department batches deposits and makes deposits directly in the bank monthly. The fiscal court is not making daily deposits of occupational tax because they feel they do not have enough staff to record, batch, and deposit all receipts each day. The sanitation department is not making daily deposits because they have very few receipts and the director believed they could batch and deposit the receipts monthly. By not depositing the receipts into the bank daily, the fiscal court is creating the opportunity for undetected misappropriation of assets to occur. Pursuant to KRS 68.210, the State Local Finance Officer has prescribed minimum accounting standards, which include performing daily check-out procedures and making daily deposits intact to a federally insured banking institution. We recommend the sanitation department and the occupational tax administrator deposit all receipts collected into the bank daily or turn them over to the county treasurer daily to be deposited.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Deposit of Sanitation receipts is addressed in 2016-001 comment. The Tax Administrator will prepare daily deposits if time allows for her to properly process the checks received that day. The Fiscal Court feels that rushing to process checks in order to get them to the bank on the day received will create more errors and cost more taxpayer money than waiting for them to be properly processed and credited to the correct account. The volume of checks that are received on some days is too great to process in one day regardless of how many employees are assigned to that task.

HOPKINS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2016
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2016-003 Two Of Hopkins County Fiscal Court Off-Site Locations Are Not Making Daily Deposits
(Continued)

Auditor's Reply: The response from the County Judge/Executive appears to accept that a noncompliance with the State Local Finance Officer requirements to deposit daily may be inevitable due to timing constraints. We suggest the county implement procedures to ensure that deposits are made daily to reduce the risks caused by having un-deposited payments retained on the premises, which could include procedures such as implementing cut-off times for payments or arranging for night or after-hour deposits.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

HOPKINS COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2016**

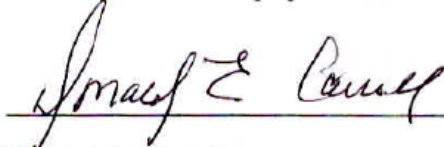
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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

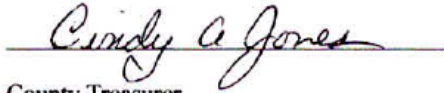
HOPKINS COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

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

A handwritten signature in cursive script, reading "James E. Cawell", written over a horizontal line.

County Judge/Executive

A handwritten signature in cursive script, reading "Cindy A. Jones", written over a horizontal line.

County Treasurer