

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

**For The Fiscal Year Ended  
June 30, 2014**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**HENDERSON COUNTY FISCAL COURT**

**June 30, 2014**

The Auditor of Public Accounts has completed the audit of the Henderson County Fiscal Court for fiscal year ended June 30, 2014.

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

**Financial Condition:**

The Henderson County Fiscal Court had total receipts of \$22,750,528 and disbursements of \$28,067,235 in fiscal year 2014. This resulted in a total ending fund balance of \$5,979,240, which is a decrease of \$2,018,546 from the prior year.

**Report Comments:**

- 2014-001 Quarterly Financial Reports Presented To Fiscal Court And The Department For Local Government Should Accurately Reflect Cash, Receipts, And Disbursements
- 2014-002 Fiscal Court Investments Should Be Properly Documented
- 2014-003 The Payroll Revolving Account Was Not Properly Reconciled
- 2014-004 Self Insurance Costs Were Not Properly Allocated To All Funds Or Departments
- 2014-005 All Jail Disbursements Should Be Presented To Fiscal Court Prior To Payment
- 2014-006 Jail Commissary Fund Has A Lack Of Adequate Internal Controls
- 2014-007 The Lack Of Adequate Segregation Of Duties Over Receipts, Cash, Bank Reconciliations, Ledger Postings, And Financial Statement Preparation Caused Financial Reporting Errors

**Deposits:**

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



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Donald Hugh McCormick, Henderson County Judge/Executive

Members of the Henderson 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 Henderson County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

**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. 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 more fully in Note 1, the financial statement is prepared by Henderson County, Kentucky 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 Henderson County, Kentucky as of June 30, 2014, 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 Henderson County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Henderson County, Kentucky. 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 budgetary comparison schedules and capital asset schedule have 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 basic financial statement.

To the People of Kentucky  
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Finance and Administration Cabinet  
Honorable Donald Hugh McCormick, Henderson County Judge/Executive  
Members of the Henderson County Fiscal Court

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated June 22, 2015 on our consideration of Henderson County, Kentucky'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 and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2014-001 Quarterly Financial Reports Presented To Fiscal Court And The Department For Local Government Should Accurately Reflect Cash, Receipts, And Disbursements
- 2014-002 Fiscal Court Investments Should Be Properly Documented
- 2014-003 The Payroll Revolving Account Was Not Properly Reconciled
- 2014-004 Self Insurance Costs Were Not Properly Allocated To All Funds Or Departments
- 2014-005 All Jail Disbursements Should Be Presented To Fiscal Court Prior To Payment
- 2014-006 Jail Commissary Fund Has A Lack Of Adequate Internal Controls
- 2014-007 The Lack Of Adequate Segregation Of Duties Over Receipts, Cash, Bank Reconciliations, Ledger Postings, And Financial Statement Preparation Caused Financial Reporting Errors

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

June 22, 2015

HENDERSON COUNTY OFFICIALS

For The Year Ended June 30, 2014

**Fiscal Court Members:**

Donald Hugh McCormick	County Judge/Executive
Carter Wilkerson	Magistrate
Charles Alexander	Magistrate
Billy Putman	Magistrate
Bruce Todd	Magistrate
George Warren	Magistrate

**Other Elected Officials:**

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

**Appointed Personnel:**

Rebecca I. Carroll	County Treasurer
Brenda Duncan-Rider	Finance Officer

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

**For The Year Ended June 30, 2014**

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

**For The Year Ended June 30, 2014**

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 5,792,664	\$	\$
In Lieu Tax Payments	389,285		
Excess Fees	88,790		
Licenses and Permits	130,906		
Intergovernmental	3,055,672	2,244,402	5,849,330
Charges for Services	2,016	54,534	85,844
Miscellaneous	177,015	577,086	388,031
Interest	16,062	239	25,794
Total Receipts	<u>9,652,410</u>	<u>2,876,261</u>	<u>6,348,999</u>
<b>DISBURSEMENTS</b>			
General Government	6,931,905	434,987	
Protection to Persons and Property	693,349		4,978,296
General Health and Sanitation	67,855		
Social Services		359,419	
Recreation and Culture			
Roads		3,551,671	
Debt Service			1,200
Capital Projects	16,263		
Administration	874,825	822,491	1,244,928
Total Disbursements	<u>8,584,197</u>	<u>5,168,568</u>	<u>6,224,424</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,068,213</u>	<u>(2,292,307)</u>	<u>124,575</u>
<b>Other Adjustments to Cash (Uses)</b>			
Bond Proceeds			
Payroll Revolving Account	24,947		
Cost Of Issuance			
Bond Discount			
Transfers From Other Funds	200,000	2,132,000	
Transfers To Other Funds	(2,175,000)	(450,000)	(545,351)
Total Other Adjustments to Cash (Uses)	<u>(1,950,053)</u>	<u>1,682,000</u>	<u>(545,351)</u>
Net Change in Fund Balance	(881,840)	(610,307)	(420,776)
Fund Balance - Beginning (Restated)	3,996,704	665,313	2,454,571
Fund Balance - Ending	<u>\$ 3,114,864</u>	<u>\$ 55,006</u>	<u>\$ 2,033,795</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 430,356	\$ 306,002	\$ 1,540,042
Plus: Deposits In Transit			
Less: Outstanding Checks	(49,977)	(250,996)	(6,247)
Certificate of Deposits	2,732,031		500,000
Investments/Money Market	2,454		
Fund Balance - Ending	<u>\$ 3,114,864</u>	<u>\$ 55,006</u>	<u>\$ 2,033,795</u>

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

**HENDERSON COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2014**  
**(Continued)**

Budgeted Funds			Unbudgeted Funds		
Local Government Economic Assistance Fund	State Grant Fund	Economic Development Fund	General Obligation Bond Fund	Public Properties Debt Service Fund	Jail Commissary Fund
\$ 88,532	\$ 309,650	\$	\$	\$	\$
1,017,097		658,731		728,302	1,027,695
25,000					
17,715		14	121	1	
<u>1,148,344</u>	<u>309,650</u>	<u>658,745</u>	<u>121</u>	<u>728,303</u>	<u>1,027,695</u>
116,000		823,765			
272,168	49,745				
318,023					
247,459	251,250				
20,000					909,683
271,460					
			3,818,685	726,775	
259,333		5,700			
<u>1,504,443</u>	<u>300,995</u>	<u>829,465</u>	<u>3,818,685</u>	<u>726,775</u>	<u>909,683</u>
(356,099)	8,655	(170,720)	(3,818,564)	1,528	118,012
			3,400,000		
			(75,786)		
			(51,000)		
250,000	35,000	75,000	545,351		
	(32,000)	(35,000)			
<u>250,000</u>	<u>3,000</u>	<u>40,000</u>	<u>3,818,565</u>		
(106,099)	11,655	(130,720)	1	1,528	118,012
619,648	3,783	133,566	11,639	1,028	111,534
<u>\$ 513,549</u>	<u>\$ 15,438</u>	<u>\$ 2,846</u>	<u>\$ 11,640</u>	<u>\$ 2,556</u>	<u>\$ 229,546</u>
\$ 17,764	\$ 15,438	\$ 60,922	\$ 11,640	\$ 2,556	\$ 231,109
250,000		25,000			
(254,215)		(83,076)			(1,563)
500,000					
<u>\$ 513,549</u>	<u>\$ 15,438</u>	<u>\$ 2,846</u>	<u>\$ 11,640</u>	<u>\$ 2,556</u>	<u>\$ 229,546</u>

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

**HENDERSON COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2014**  
**(Continued)**

	<b>Total Funds</b>	<b>Internal Service Funds</b>
		<b>Health Insurance Fund</b>
<b>RECEIPTS</b>		
Taxes	\$ 6,190,846	\$
In Lieu Tax Payments	389,285	
Excess Fees	88,790	
Licenses and Permits	130,906	
Intergovernmental	13,553,534	
Charges for Services	1,170,089	
Miscellaneous	1,167,132	2,112,391
Interest	59,946	
Total Receipts	<u>22,750,528</u>	<u>2,112,391</u>
<b>DISBURSEMENTS</b>		
General Government	8,306,657	
Protection to Persons and Property	5,993,558	
General Health and Sanitation	385,878	
Social Services	858,128	
Recreation and Culture	929,683	
Roads	3,823,131	
Debt Service	4,546,660	
Capital Projects	16,263	
Administration	<u>3,207,277</u>	<u>1,986,052</u>
Total Disbursements	<u>28,067,235</u>	<u>1,986,052</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(5,316,707)</u>	<u>126,339</u>
<b>Other Adjustments to Cash (Uses)</b>		
Bond Proceeds	3,400,000	
Payroll Revolving Account	24,947	
Cost Of Issuance	(75,786)	
Bond Discount	(51,000)	
Transfers From Other Funds	3,237,351	
Transfers To Other Funds	<u>(3,237,351)</u>	
Total Other Adjustments to Cash (Uses)	<u>3,298,161</u>	
Net Change in Fund Balance	(2,018,546)	126,339
Fund Balance - Beginning	<u>7,997,786</u>	<u>97,608</u>
Fund Balance - Ending	<u>\$ 5,979,240</u>	<u>\$ 223,947</u>
<b>Composition of Fund Balance</b>		
Bank Balance	\$ 2,615,829	\$ 223,947
Deposits In Transit	275,000	
Less Outstanding Checks	(646,074)	
Certificate of Deposits	3,732,031	
Investments	2,454	
Ending Fund Balance	<u>\$ 5,979,240</u>	<u>\$ 223,947</u>

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

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TO THE FINANCIAL STATEMENT**

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**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2014**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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

**B. Basis of Accounting**

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

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

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

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

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

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

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(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 government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

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

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

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

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

General Obligation Bond Fund - The purpose of this fund is to account for debt service requirements of the General Obligation Bonds, Series 2003, Refunding Bonds 2012, and Detention Facility Bonds, Series 2013. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

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

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the 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 Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

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

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(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 these funds.

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

**E. Henderson County Elected Officials**

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

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

**F. Deposits and Investments**

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

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

**G. Long-term Obligations**

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

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(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(4), 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 county 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 41.240(4). As of June 30, 2014, 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 2014.

	General Fund	Road Fund	Jail Fund	LGEA Fund	State Grant Fund	Total Transfers In
General Fund	\$	\$ 200,000	\$	\$	\$	\$ 200,000
Road Fund	2,100,000			32,000		2,132,000
LGEA Fund		250,000				250,000
LGED Fund					35,000	35,000
State Grant Fund	75,000					75,000
General Obligation Bond Fund			545,351			545,351
Total Transfers Out	<u>\$ 2,175,000</u>	<u>\$ 450,000</u>	<u>\$ 545,351</u>	<u>\$ 32,000</u>	<u>\$ 35,000</u>	<u>\$ 3,237,351</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

**Note 4. Agency Trust Funds**

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

The fiscal court has the following agency trust funds:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the Jail Inmate Fund as of June 30, 2014 was \$158,233.

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 5. Assets Held For Resale**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Vehicles and Equipment	\$ 0	\$ 253,256	\$ 253,256	\$ 0
Total	<u>\$ 0</u>	<u>\$ 253,256</u>	<u>\$ 253,256</u>	<u>\$ 0</u>

**Note 6. Short-term Debt**

**A. Mack Trucks – Held For Resale**

The County of Henderson, Kentucky entered into a lease agreement with the Kentucky Association of Counties Leasing Trust on August 16, 2013 for the purpose financing the purchase of trucks for the road department. These trucks were held for resale and were sold prior to June 30, 2014. The lease amount was \$253,256. The lease was paid in full on June 17, 2014.

**B. Changes In Short-term Debt**

Short-term Debt activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Financing Obligations	\$	\$ 253,256	\$ 253,256	\$
Total Short-term Debt	<u>\$ 0</u>	<u>\$ 253,256</u>	<u>\$ 253,256</u>	<u>\$ 0</u>

**Note 7. Receivable**

Henderson County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust on April 19, 2007 for the purpose of funding an airport expansion (See Note 6E.) project along with the City of Henderson, the principal amount of the loan was given directly to the airport. The lease amount was \$325,000. The balance of the receivable at June 30, 2014 was \$249,455.

During fiscal year 2013, the Henderson County Fiscal Court loaned the Reed Volunteer Fire Department \$50,000. The loan is to be paid back over ten years with an annual payment of \$5,000 with no interest added. The Fiscal Court reduces the amount contributed to the Reed Volunteer Fire Department by \$5,000 each year. The balance of the receivable was \$40,000 at June 30, 2014.

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 8. Long-term Debt**

**A. Detention Facility**

The County of Henderson, Kentucky issued bonds dated August 1, 2003, for the purpose of (1) refunding the outstanding Henderson County Public Properties Corporation Lease Revenue Bonds (Detention Facility Project) Series 1995 maturing June 1, 2006 through June 1, 2016 (2) paying the costs associated with the expansion, renovation, improvement, and equipping of the Detention Facility located in Henderson, Kentucky. The issue amount of the bonds was \$7,080,000. On May 9, 2012, the County advance refunded a portion of the bonds maturing after June 1, 2014 from the General Obligation Refunding Bonds, Series 2012. The County issued \$3,335,000 General Obligation Refunding Bonds, Series 2013 dated September 2013 for the purpose of refunding and retiring the remaining portion of the County's 2003 Detention Center Bonds. The balance as of June 30, 2014 was \$0.

**B. Courts Facility**

The Henderson County Public Properties Corporation entered into a bond issue, Henderson County Public Properties Corporation Lease Revenue Refunding Bonds (Court Facility Project), Series 2006 on December 1, 2006 for the purpose of paying the costs associated with the refunding and refinancing of the Series 2000 Bonds. The issue amount of the bonds was \$9,670,000. Interest on the bonds will be payable semi-annually on February 1 and August 1 of each year. The bonds will mature on February 1 of each year thereafter. The outstanding balance as of June 30, 2014 was \$6,870,000.

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 460,000	\$ 260,463
2016	485,000	243,788
2017	500,000	226,206
2018	520,000	207,956
2019	535,000	188,717
2020-2024	3,000,000	622,877
2025-2026	1,370,000	80,212
Totals	<u>\$ 6,870,000</u>	<u>\$ 1,830,219</u>

**C. Refunding Bonds 2012**

The County of Henderson, Kentucky issued \$1,865,000 General Obligation Refunding Bonds, Series 2012 dated May 2012 for the purpose of refunding and retiring a portion of the County's 2003 Detention Center Bond. Principal payments are due each year on June 1, in amounts indicated below starting June 1, 2012. Interest on the bonds will be payable semi-annually on June 1 and December 1, beginning June 1, 2012. The principal balance outstanding for the bond issue as of June 30, 2014 was \$1,635,000. Future debt service requirements are:

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 8. Long-term Debt (Continued)**

**C. Refunding Bonds 2012 (Continued)**

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 175,000	\$ 26,800
2016	175,000	25,050
2017	175,000	23,300
2018	180,000	21,200
2019	180,000	18,750
2020-2023	750,000	40,800
Totals	<u>\$ 1,635,000</u>	<u>\$ 155,900</u>

**D. Refunding Bonds 2013**

The County of Henderson, Kentucky issued \$3,335,000 General Obligation Refunding Bonds, Series 2013 dated September 2013 for the purpose of refunding and retiring a portion of the County's 2003 Detention Center Bond. Principal payments are due each year on June 1, in amounts indicated below starting June 1, 2014. Interest on the bonds will be payable semi-annually on June 1 and December 1, beginning June 1, 2014. The principal balance outstanding for the bond issue as of June 30, 2014 was \$3,040,000. Future debt service requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 270,000	\$ 73,500
2016	320,000	68,100
2017	325,000	61,700
2018	335,000	55,200
2019	345,000	48,500
2020-2023	1,445,000	106,600
Totals	<u>\$ 3,040,000</u>	<u>\$ 413,600</u>

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 8. Long-term Debt (Continued)**

**E. Airport Lease**

The County of Henderson, Kentucky entered into a lease agreement with the Kentucky Association of Counties Leasing Trust on April 19, 2007 for the purpose of funding an airport expansion project along with the City of Henderson. The lease amount was \$325,000. Principal and interest payments are due monthly. Interest is charged at a rate of 4.338%. The lease will be paid in full on May 20, 2027. The principal balance as of June 30, 2014 was \$249,455. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 13,071	\$ 10,554
2016	13,896	9,996
2017	14,773	9,389
2018	15,705	8,749
2019	16,696	8,064
2020-2024	100,679	28,525
2025-2027	74,635	5,712
Totals	<u>\$ 249,455</u>	<u>\$ 80,989</u>

**F. Changes In Long-term Debt**

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 3,205,000	\$	\$3,205,000	\$	\$
Revenue Refunding Bonds	9,125,000	3,335,000	915,000	11,545,000	905,000
Financing Obligations	261,750		12,295	249,455	13,071
Total Long-term Debt	<u>\$ 12,591,750</u>	<u>\$ 3,335,000</u>	<u>\$ 4,132,295</u>	<u>\$ 11,794,455</u>	<u>\$ 918,071</u>

Auditor restated beginning General Obligations Bonds by \$132,560.

**Note 9. Commitments and Contingencies**

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

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 9. Commitment and Contingencies (Continued)**

**A. Industrial Revenue Bonds**

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

**B. Ambulance Service Agreement**

In April 1983, the County of Henderson along with the City of Henderson entered into an agreement with Community Methodist Hospital for the operation of a countywide ambulance service. The hospital agreed to operate the ambulance service with both the City and County reimbursing the hospital for any operating loss incurred on a quarterly basis. Expenses incurred under this agreement for fiscal year ended June 30, 2014 were \$341,888.

**C. Recycling Interlocal Agreement**

In response to KRS 224.830 and reducing solid waste stream at municipal landfills by 25%, the County of Henderson entered into an Interlocal Agreement with Union and Webster Counties and the Cities of Henderson and Corydon establishing a Solid Waste Recycling Facility and Program for these areas. All parties have agreed to fund the operational expenses of this organization. The County is responsible for 22.5% of the Solid Waste Recycling Facility and Program operating expenses. Expenses incurred under this agreement for fiscal year ended June 30, 2014, were \$43,703.

**D. West Kentucky Regional Industrial Development Authority-Kenergy Loan Guarantee**

Henderson County in conjunction with Webster, Union, and McLean Counties issued an ordinance, which guarantees a portion of the \$450,000, zero-interest rural development loan made to Kenergy from the West Kentucky Regional Industrial Development Authority, to assist in promoting development of the 4Star Industrial Park. Henderson County authorized a guarantee of \$150,000. Webster County also guaranteed \$150,000 and Union and McLean Counties each guaranteed \$75,000.

**E. Henderson City-County Planning Commission**

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Henderson City-County Planning Commission (Planning Commission). The Planning Commission is a joint venture between Fiscal Court and City of Henderson to assist and promote the orderly development of the county and cities. The Fiscal Court and City of Henderson are each responsible for fifty percent of the basic administration included in the budget of the Planning Commission. Expenses incurred under this agreement for fiscal year ended June 30, 2014, was \$274,500.

**F. Henderson City-County Airport Board**

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Henderson City-County Airport Board. The Airport Board is a joint venture between the Fiscal Court and the City of Henderson to assist and promote the Henderson City-County Airport. Expenses incurred under this agreement for fiscal year ended June 30, 2014 was \$115,833.

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 9. Commitment and Contingencies (Continued)**

**G. North KY Forward (Formerly EDC)**

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for North KY Forward, which is a joint venture between the Fiscal Court and City of Henderson to assist and promote Henderson County. Expenses incurred under this agreement for fiscal year ended June 30, 2014 was \$100,000.

**H. Community United Methodist Hospital – Conduit Debt**

The County issued \$7,200,000 in revenue bonds in fiscal year 2013 to enable a non-profit corporation to finance the acquisition of medical equipment. The bonds do not constitute an indebtedness or pledge of faith and credit of the County; therefore, no obligation is recorded on the County's long-term debt note in Note 8.

**Note 10. 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. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

The county's contribution for FY 2012 was \$1,205,397, FY 2013 was \$1,283,809, and FY 2014 was \$1,336,362.

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 (members 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.

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:

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

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 10. Employee Retirement System (Continued)**

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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.

**Note 11. Deferred Compensation**

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

These deferred compensation plans permits 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 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 12. Self-Insurance - Health**

Henderson County Fiscal Court elected to begin a partially self-funded health insurance plan as of April 1, 1997. County employees are required to contribute 17% of the premium payment for their plan and the County pays the remaining 83% of the County employee's coverage. The County maintains only one insurance plan with various levels of coverage (i.e. single, family, etc.). The Riverport Authority employees also contribute to this fund. Henderson County contracted with Anthem Blue Cross Blue Shield as of January 1, 2012.

This partially self-funded insurance plan has two distinct components that the fiscal court must pay. The first component is the fixed cost, which consists of administrative fees associated with operating the plan, and specific and aggregate reinsurance costs that cap the county's claims exposure on an individual and aggregate basis. Incurred fixed costs for fiscal year ending June 30, 2014 were \$117,990. The second component is the claims cost, all of which Henderson County is responsible to pay as they incur. Once an individual exceeds \$75,000 in claims or the County's aggregate claims exceed the predetermined maximum, then the County will receive reimbursements from the reinsurance carrier. Incurred claims for fiscal year ended June 30, 2014 were \$1,578,323. Henderson County Fiscal Court's contract with Anthem Blue Cross Blue Shield has no terminal liability provisions. The Court will be responsible to pay all run-out claims after termination. The Health Insurance Fund had a balance of \$382,770 which included \$974 in the Healthplan cash account and \$381,796 in the payroll cash account, as of June 30, 2014.

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 13. Insurance**

For the fiscal year ended June 30, 2014, Henderson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 14. Payroll Revolving Account**

The reconciled balance of the Payroll Revolving Account as of June 30, 2014, was added to the General Fund cash balance for financing reporting purposes.

**Note 15. Prior Period Adjustments**

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Local Government Economic Development Fund
Ending Cash Balance Prior Year	\$ 3,988,247	\$ 601,393	\$ 2,452,980	\$ 619,440	\$ 68,566
Adjustments:					
Prior Year Voided Checks	3,401	63,920	1,591	208	65,000
Prior Year Error	(1,340)				
Prior Year Investment Understate	6,396				
Beginning Cash Balance Restated	<u>\$ 3,996,704</u>	<u>\$ 665,313</u>	<u>\$ 2,454,571</u>	<u>\$ 619,648</u>	<u>\$ 133,566</u>

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**HENDERSON COUNTY**  
**BUDGRTARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2014**



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

**For The Year Ended June 30, 2014**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 5,608,700	\$ 5,608,700	\$ 5,792,664	\$ 183,964
In Lieu Tax Payments	353,000	353,000	389,285	36,285
Excess Fees	150,000	150,000	88,790	(61,210)
Licenses and Permits	148,800	148,800	130,906	(17,894)
Intergovernmental	2,918,315	2,918,315	3,055,672	137,357
Charges for Services	2,016	2,016	2,016	
Miscellaneous	53,050	53,050	177,015	123,965
Interest	20,000	20,000	16,062	(3,938)
Total Receipts	<u>9,253,881</u>	<u>9,253,881</u>	<u>9,652,410</u>	<u>398,529</u>
<b>DISBURSEMENTS</b>				
General Government	7,012,109	7,012,109	6,931,905	80,204
Protection to Persons and Property	604,736	604,736	693,349	(88,613)
Bus Services	67,868	67,868	67,855	13
Capital Projects	335,000	335,000	16,263	318,737
Administration	578,373	568,373	874,825	(306,452)
Total Disbursements	<u>8,598,086</u>	<u>8,588,086</u>	<u>8,584,197</u>	<u>3,889</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>655,795</u>	<u>665,795</u>	<u>1,068,213</u>	<u>402,418</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			200,000	200,000
Transfers To Other Funds	(2,630,000)	(2,630,000)	(2,175,000)	455,000
Total Other Adjustments to Cash (Uses)	<u>(2,630,000)</u>	<u>(2,630,000)</u>	<u>(1,975,000)</u>	<u>655,000</u>
Net Change in Fund Balance	(1,974,205)	(1,964,205)	(906,787)	1,057,418
Fund Balance Beginning (Restated)	<u>1,974,205</u>	<u>1,974,205</u>	<u>3,996,704</u>	<u>2,022,499</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 10,000</u>	<u>\$ 3,089,917</u>	<u>\$ 3,079,917</u>

**HENDERSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,887,234	\$ 2,301,734	\$ 2,244,402	\$ (57,332)
Charges for Services	15,000	15,000	54,534	39,534
Miscellaneous	176,000	176,000	577,086	401,086
Interest	500	500	239	(261)
Total Receipts	<u>2,078,734</u>	<u>2,493,234</u>	<u>2,876,261</u>	<u>383,027</u>
<b>DISBURSEMENTS</b>				
General Health and Sanitation	210,320	210,320	434,987	(224,667)
Social Services	40,763	40,763	359,419	(318,656)
Roads	3,857,310	4,357,310	3,551,671	805,639
Administration	642,135	642,135	822,491	(180,356)
Total Disbursements	<u>4,750,528</u>	<u>5,250,528</u>	<u>5,168,568</u>	<u>81,960</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,671,794)</u>	<u>(2,757,294)</u>	<u>(2,292,307)</u>	<u>464,987</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	2,600,000	2,600,000	2,132,000	(468,000)
Transfers To Other Funds			(450,000)	(450,000)
Total Other Adjustments to Cash (Uses)	<u>2,600,000</u>	<u>2,600,000</u>	<u>1,682,000</u>	<u>(918,000)</u>
Net Change in Fund Balance	(71,794)	(157,294)	(610,307)	(453,013)
Fund Balance Beginning (Restated)	<u>71,794</u>	<u>157,294</u>	<u>665,313</u>	<u>508,019</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 55,006</u>	<u>\$ 55,006</u>

**HENDERSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 5,689,916	\$ 5,689,916	\$ 5,849,330	\$ 159,414
Charges for Services	82,800	82,800	85,844	3,044
Miscellaneous	368,000	642,500	388,031	(254,469)
Interest	7,500	7,500	25,794	18,294
Total Receipts	<u>6,148,216</u>	<u>6,422,716</u>	<u>6,348,999</u>	<u>(73,717)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	4,835,197	4,835,197	4,978,296	(143,099)
Debt Service	574,000	28,649	1,200	27,449
Administration	1,333,774	1,608,274	1,244,928	363,346
Total Disbursements	<u>6,742,971</u>	<u>6,472,120</u>	<u>6,224,424</u>	<u>247,696</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(594,755)</u>	<u>(49,404)</u>	<u>124,575</u>	<u>173,979</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds		(545,351)	(545,351)	
Total Other Adjustments to Cash (Uses)		<u>(545,351)</u>	<u>(545,351)</u>	
Net Change in Fund Balance	(594,755)	(594,755)	(420,776)	173,979
Fund Balance Beginning (Restated)	594,755	594,755	2,454,571	1,859,816
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,033,795</u>	<u>\$ 2,033,795</u>

**HENDERSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Licenses and Permits	\$ 110,000	\$ 110,000	\$ 88,532	\$ (21,468)
Intergovernmental	915,500	915,500	1,017,097	101,597
Miscellaneous	31,000	31,000	25,000	(6,000)
Interest	5,000	5,000	17,715	12,715
Total Receipts	<u>1,061,500</u>	<u>1,061,500</u>	<u>1,148,344</u>	<u>86,844</u>
<b>DISBURSEMENTS</b>				
General Government	115,000	115,000	116,000	(1,000)
Protection to Persons and Property	348,500	348,500	272,168	76,332
General Health and Sanitation	395,100	395,100	318,023	77,077
Social Services	302,935	302,935	247,459	55,476
Recreation and Culture	22,000	22,000	20,000	2,000
Roads	288,450	288,450	271,460	16,990
Bus Services	32,500	32,500		32,500
Capital Projects	20,000	20,000		20,000
Administration	1,000	1,000	259,333	(258,333)
Total Disbursements	<u>1,525,485</u>	<u>1,525,485</u>	<u>1,504,443</u>	<u>21,042</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(463,985)</u>	<u>(463,985)</u>	<u>(356,099)</u>	<u>107,886</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			250,000	250,000
Total Other Adjustments to Cash (Uses)			<u>250,000</u>	<u>250,000</u>
Net Change in Fund Balance	(463,985)	(463,985)	(106,099)	357,886
Fund Balance Beginning (Restated)	463,985	463,985	619,648	155,663
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 513,549</u>	<u>\$ 513,549</u>

**HENDERSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>STATE GRANT FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 300,000	\$ 300,000	\$ 309,650	\$ 9,650
Total Receipts	<u>300,000</u>	<u>300,000</u>	<u>309,650</u>	<u>9,650</u>
<b>DISBURSEMENTS</b>				
General Government	50,000	50,000	49,745	255
Social Services	250,000	250,000	251,250	(1,250)
Administration		10,000		10,000
Total Disbursements	<u>300,000</u>	<u>310,000</u>	<u>300,995</u>	<u>9,005</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(10,000)</u>	<u>8,655</u>	<u>18,655</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			35,000	35,000
Transfers To Other Funds			(32,000)	(32,000)
Total Other Adjustments to Cash (Uses)			<u>3,000</u>	<u>3,000</u>
Net Change in Fund Balance		(10,000)	11,655	21,655
Fund Balance Beginning			<u>3,783</u>	<u>3,783</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (10,000)</u>	<u>\$ 15,438</u>	<u>\$ 25,438</u>

**HENDERSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>ECONOMIC DEVELOPMENT FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 300,000	\$ 666,456	\$ 658,731	\$ (7,725)
Interest			14	14
Total Receipts	<u>300,000</u>	<u>666,456</u>	<u>658,745</u>	<u>(7,711)</u>
<b>DISBURSEMENTS</b>				
General Government	300,000	815,051	823,765	(8,714)
Administration	30,000	30,000	5,700	24,300
Total Disbursements	<u>330,000</u>	<u>845,051</u>	<u>829,465</u>	<u>15,586</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(30,000)</u>	<u>(178,595)</u>	<u>(170,720)</u>	<u>7,875</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	30,000	45,030	75,000	29,970
Transfers To Other Funds			(35,000)	(35,000)
Total Other Adjustments to Cash (Uses)	<u>30,000</u>	<u>45,030</u>	<u>40,000</u>	<u>(5,030)</u>
Net Change in Fund Balance		(133,565)	(130,720)	2,845
Fund Balance Beginning (Restated)		<u>133,565</u>	<u>133,566</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,846</u>	<u>\$ 2,846</u>

**HENDERSON COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2014**

**Note 1. Budgetary Information**

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

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 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. Disbursements Exceeding Budgeted Appropriations**

The following disbursements exceeded budgeted appropriations:

**General Fund**

Protection to Persons and Property	\$ 88,613
Administration	306,452

**Road Fund**

General Health and Sanitation	224,667
Social Services	318,656
Administration	180,356

**Jail Fund**

Protection to Persons and Property	143,099
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**Local Government Economic Assistance Fund**

General Government	1,000
Administration	258,333

**State Grant Fund**

Social Services	1,250
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**Economic Fund**

General Government	8,714
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**Note 3. Reconciliation of the General Fund**

Other Adjustments to Cash (Uses)-Budgetary Basis	\$ (1,975,000)
To adjust for Payroll Revolving Account	24,947
	<hr/>
Total Other Adjustments to Cash (Uses)-Regulatory Basis	<u>\$ (1,950,053)</u>
Fund Balance-Ending-Budgetary Basis	\$ 3,089,917
To adjust for Payroll Revolving Account	24,947
	<hr/>
Total Fund Balance-Ending-Regulatory Basis	<u><u>\$ 3,114,864</u></u>

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**HENDERSON COUNTY  
SUPPLEMENTARY SCHEDULE  
Supplementary Information - Regulatory Basis  
For The Year Ended June 30, 2014**



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

**For The Year Ended June 30, 2014**

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 Improvements	\$ 583,213	\$	\$	\$ 583,213
Building and Building Improvements	21,281,219			21,281,219
Vehicles and Equipment	7,292,384	364,038	45,496	7,610,926
Equipment - Jail	65,690			65,690
Infrastructure	<u>7,540,150</u>	<u>1,349,418</u>	<u></u>	<u>8,889,568</u>
 Total Capital Assets	 <u>\$ 36,762,656</u>	 <u>\$ 1,713,456</u>	 <u>\$ 45,496</u>	 <u>\$38,430,616</u>

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

**June 30, 2014**

**Note 1. Capital Assets**

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

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

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





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Donald Hugh McCormick, Henderson County Judge/Executive  
Members of the Henderson County Fiscal Court

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

**Independent 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 Henderson County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated June 22, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Henderson County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Henderson County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Henderson County Fiscal Court's internal control.

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 comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weakness.

*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 comments and recommendations as items 2014-001, 2014-002, 2014-003, 2014-004, 2014-005, 2014-006, and 2014-007 to be material weaknesses.



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

### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Henderson County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2014-001, 2014-002, 2014-003, 2014-004, 2014-005, and 2014-007.

### **County Judge and Jailer's Responses to Findings**

The Henderson County Judge and Jailer's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The County Judge and Jailer'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,



Adam H. Edelen  
Auditor of Public Accounts

June 22, 2015

**HENDERSON COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2014**



**HENDERSON COUNTY**  
**COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2014**

FINANCIAL STATEMENT FINDINGS:

2014-001    Quarterly Financial Reports Presented To Fiscal Court And The Department For Local Government Should Accurately Reflect Cash, Receipts, And Disbursements

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During testing auditors noted that the Fourth Quarter Financial Statement was not accurate. KRS 68.360 requires a statement for the year showing the actual receipts, encumbrances, disbursements, and transfers that is to be submitted to the state local finance officer. The former treasurer was out of the office for personal reasons during the close of the fiscal year. Closing adjustments were improperly classified causing the cash balances to be misstated. Without proper oversight, amounts on the financial statement could be materially misstated. We recommend the Fiscal Court monitor quarterly reports and compare quarterly reports to supporting documentation.

*County Judge/Executive Donald Hugh McCormick's Response: The current Treasurer is working to gain an understanding of the position and the requirements.*

2014-002    Fiscal Court Investments Should Be Properly Documented

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During testing of investments, we found that the former treasurer had not prepared an investment ledger. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the County Budget Preparation and State Local Finance Officer Policy Manual, requires books of original entry be maintained for receipts and expenditures of all transactions of the fiscal court. This includes an investment ledger or journal. The former treasurer failed to prepare a ledger and there were no internal controls in place to ensure that the proper records were being maintained. Therefore, the Fiscal Court had no documentation of investment balances. Since there was no oversight, investments could be liquidated without Fiscal Court knowledge. We recommend the Fiscal Court require an investment ledger be maintained and investments be reviewed in order to verify amounts listed on the quarterly as investments.

*County Judge/Executive Donald Hugh McCormick's Response: A system has been put in place for maintaining an investment ledger and documentation of the balances.*

2014-003    The Payroll Revolving Account Was Not Properly Reconciled

---

During testing of cash, we discovered the payroll account was not properly reconciled. The Department of Local Government County Budget Preparation and State Local Finance Officer Policy Manual requires monthly bank reconciliations as well as subsidiary ledgers and journals. Payroll activity was comingled with self-insurance fund transactions as well as flexible spending transactions. There were no ledgers to support each of these activities. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance. Disbursements from the various funds of the county did not agree to amounts received by the payroll account. Prior year balance was used to pay current year expenses and therefore the transactions do not appear as disbursements on the financial statement and costs related to the self-insurance fund flex plan are not being captured and presented to fiscal court. We recommend the payroll account be properly reconciled, a separate fund and separate account be utilized for the Self Insurance Fund activity and that flex plan administration costs be presented to fiscal court and paid from the proper fund.

*County Judge/Executive Donald Hugh McCormick's Response: Procedures are in place to move forward with establishing a separate fund for a Self-Insurance Fund and handling of the Flex Plan administration during FY 2016.*

**HENDERSON COUNTY  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended June 30, 2014  
(Continued)**

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2014-004 Self Insurance Costs Were Not Properly Allocated To All Funds Or Departments

Testing of the payroll account revealed that the General Fund was covering losses in the Self Insurance Fund. KRS 68.210 requires accurate subsidiary ledgers and journals. Losses should have been paid from the funds and activities that incurred them. The losses are caused by self insurance claims exceeding self insurance receipts, which included claims from various funds, the County Attorney's office, and also the Riverport. The County ends up paying the costs for self insurance participants that are not employees of the County. Additionally, the losses were not properly disclosed to fiscal court. We recommend the Fiscal Court require the Self Insurance Fund be maintained separately from other payroll activity, be included on the financial statement as a budgeted fund, and post transfers to the Self Insurance Fund as expenses in the proper funds. Additionally, the County Attorney's Office and Riverport should be billed for their portion of the losses due to claims by their respective participants.

*County Judge/Executive Donald Hugh McCormick's Response: The Treasurer's office is in the beginning stages of implementing a Self-Insurance Fund and the reconciliation of the fund as well as educating the Departments, County Attorney and Riverport of the forthcoming procedures for losses due to the associated claims.*

*Jailer Ron Harrington's Response: I was not aware that the County Health Insurance is 100% self funded until the audit exit, therefore I understand the Jail may incur additional expense.*

2014-005 All Jail Disbursements Should Be Presented To Fiscal Court Prior To Payment

The Jail Commissary paid jail bills in excess of \$20,000. These bills were later reimbursed by the Jail Fund. KRS 441.225 states (1) Except for capital improvements, utilities and building insurance and except as provided in subsection (2) of this section, the jailer shall have authority to authorize expenditures from the jail budget. Such expenditures shall only be made in accordance with the line item jail budget duly adopted or amended by the fiscal court and the established county procurement code or purchase order procedure of the county. Payment for purchases for the jail shall be subject to fiscal court approval prior to payment. The fiscal court shall not withhold approval of payment for jail expenditures, which are within the jail budget and not unlawful. These bills were not presented to Fiscal Court prior to payment. Since the bills were not properly submitted, they were not available to be analyzed prior to payment. We recommend that the Jailer have all invoices presented to the Fiscal Court for review prior to payment and approved payments should be recorded in the county's appropriation ledger as budgeted disbursements and not be paid from the jail commissary fund.

*County Judge/Executive Donald Hugh McCormick's Response: Refer to the Jailer's Response.*

*Jailer Ron Herrington's Response: Jail budget expenditures will be submitted to the County Treasurer's Office for fiscal court approval (except in cases of emergency).*

**HENDERSON COUNTY  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended June 30, 2014  
(Continued)**

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2014-006 Jail Commissary Fund Has A Lack Of Adequate Internal Controls

---

Testing of Jail Commissary disbursements found several large cellular phone bills paid from the Jail Commissary fund. One employee had run up excessive overages on minutes for several months. Upon evaluation we found that these bills had never been presented to the Jailer until questioned by auditors. Good internal controls dictate that the Jailer be informed of questionable expenses and that the Jailer should review monthly Jail Commissary bills. The Jail Administrative Assistant worked with the cell phone provider to get the bill credited but did not inform the Jailer of the minute overages or large bills. Since the Jailer was not properly informed of the expenses, internal controls were circumvented. If this activity could be hidden, other activity that is illegal or unallowable could take place and not be detected. We recommend the Jailer institute internal controls over jail commissary activity and review disbursements to determine that they are allowable and for the benefit of prisoners.

*County Judge/Executive Donald Hugh McCormick's Response: Refer to the Jailer's Response.*

*Jailer Ron Herrington's Response: I have appointed a jail employee to review Jail Commissary invoices to be paid to ensure expenses are allowable & for the benefit of the inmates.*

2014-007 The Lack Of Adequate Segregation Of Duties Over Receipts, Cash, Bank Reconciliations, Ledger Postings, And Financial Statement Preparation Caused Financial Reporting Errors

---

Testing disclosed a lack of segregation of duties over receipts, cash, bank reconciliations, ledger postings, and financial statement preparation as well as errors in these accounting functions. The Department of Local Government County Budget Preparation and State Local Finance Officer Policy Manual requires monthly bank reconciliations, accurate ledgers maintenance, and preparation of accurate quarterly financial statements. The treasurer performs all accounting functions over cash and receives, posts, and reconciles receipts as well as preparation of the quarterly financial statements. There were no documented compensating controls to offset the lack of segregation of duties or reduce the deficiency to less than significant level. Due to the lack of oversight the following errors were noted:

- The cover of the fourth quarter financial statement was not correct.
- No financial statements for the Bond Fund or Public Properties Corporation were prepared.
- No Schedule of Federal Awards was prepared.
- Liabilities section on the fourth quarter financial statement was understated.
- Payroll account was not properly reconciled.
- Flex plan activity was not properly accounted for.
- Bond Fund and Self Insurance Fund were not budgeted.

Segregation of duties over the functions noted above, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. We recommend the fiscal court segregate these duties or implement compensating internal controls.

*County Judge/Executive Donald Hugh McCormick's Response: As the familiarity and acclimation of those in new positions in the office increases, errors and omissions should decrease allowing for increase in job knowledge, leading to segregation of duties.*

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

**HENDERSON COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2014**



CERTIFICATION OF COMPLIANCE

*LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM*

HENDERSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

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



County Judge/Executive



County Treasurer

