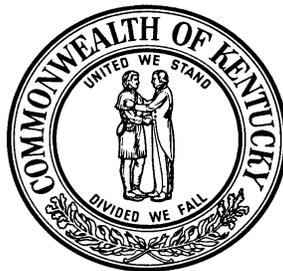


**REPORT OF THE AUDIT OF THE
HANCOCK COUNTY
FISCAL COURT**

**For The Year Ended
June 30, 2018**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS**

www.auditor.ky.gov

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Jack B. McCaslin, Former Hancock County Judge/Executive
The Honorable Johnny W. Roberts, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the financial statement of Hancock County, Kentucky, for the year ended June 30, 2018.

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

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

Enclosure



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TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

1700 EASTPOINT PARKWAY, SUITE 270
LOUISVILLE, KY 40223

BUSINESS: (502) 245-0775
FAX: (502) 245-0725
E-MAIL: wtichenor@tichenorassociates.com

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor
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Independent Auditors' Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Hancock County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Hancock County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

To the People of Kentucky

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Hancock County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Hancock County Fiscal Court as of June 30, 2018, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Hancock County Fiscal Court as of June 30, 2018, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Hancock County Fiscal Court. The Budgetary Comparison Schedules and the Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

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The Honorable Johnny W. Roberts, Hancock County Judge/Executive

Members of the Hancock County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2019, on our consideration of the Hancock County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hancock County Fiscal Court's internal control over financial reporting and compliance.

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

- 2018-001 The Fiscal Court Failed To Make Continuing Financial Disclosures Required By Bond Agreements
- 2018-002 The Fiscal Court Does Not Have Adequate Control Over Credit Card Transactions
- 2018-003 The Fiscal Court Lacks Segregation Of Duties Over Cash, Receipts, and Payroll
- 2018-004 The Fiscal Court Does Not Perform A Reconciliation Between Third-Party Vendor And Internal Documents For Ambulance Collections
- 2018-005 The Fiscal Court Does Not Have Written Loan Documentation For The Loan Made To The Airport Board
- 2018-006 The Fiscal Court Does Not Maintain An Updated Capital Asset Listing

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP

Louisville, KY

January 22, 2019

HANCOCK COUNTY OFFICIALS**For The Year Ended June 30, 2018****Fiscal Court Members:**

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

Other Elected Officials:

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

Appointed Personnel:

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

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

For The Year Ended June 30, 2018

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

For The Year Ended June 30, 2018

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 4,131,650	\$	\$
In Lieu Tax Payments	10,171		
Excess Fees	250,876		
Licenses and Permits	9,719		
Intergovernmental	302,441	1,014,908	83,359
Charges for Services	239,156		12,705
Miscellaneous	354,287	199,218	1,589
Interest	4,132	790	
Total Receipts	<u>5,302,432</u>	<u>1,214,916</u>	<u>97,653</u>
DISBURSEMENTS			
General Government	1,398,258		
Protection to Persons and Property	1,210,517		97,563
General Health and Sanitation	156,818		
Social Services	145,109		
Recreation and Culture	345,757		
Roads		1,126,480	
Airports	36,973		
Debt Service		168,043	
Administration	1,415,660	190,500	17,587
Total Disbursements	<u>4,709,092</u>	<u>1,485,023</u>	<u>115,150</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>593,340</u>	<u>(270,107)</u>	<u>(17,497)</u>
Other Adjustments to Cash (Uses)			
Payroll Revolving Account	(8,131)		
Loan Proceeds	100,000	137,904	
Loan Payoff		(136,402)	
Transfers from Other Funds	1,589	185,000	15,000
Transfers to Other Funds	(245,052)		(1,589)
Total Other Adjustments to Cash (Uses)	<u>(151,594)</u>	<u>186,502</u>	<u>13,411</u>
Net Change in Fund Balance	441,746	(83,605)	(4,086)
Fund Balance - Beginning	3,094,961	187,164	5,394
Fund Balance - Ending	<u>\$ 3,536,707</u>	<u>\$ 103,559</u>	<u>\$ 1,308</u>
Composition of Fund Balance			
Bank Balance	\$ 3,674,636	\$ 124,692	\$ 3,022
Plus: Payroll Revolving Account	331		
Less: Outstanding Checks	<u>(138,260)</u>	<u>(21,133)</u>	<u>(1,714)</u>
Fund Balance - Ending	<u>\$ 3,536,707</u>	<u>\$ 103,559</u>	<u>\$ 1,308</u>

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

HANCOCK COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

<u>Budgeted Funds</u>			<u>Unbudgeted Fund</u>	
<u>Local Government Economic Assistance Fund</u>	<u>E911 Fund</u>	<u>Federal Grant Fund</u>	<u>Public Facilities Construction Corporation Fund</u>	<u>Total Funds</u>
\$	\$ 25,101	\$	\$	\$ 4,156,751
				10,171
				250,876
				9,719
65,754	152,737	59,762	797,419	2,476,380
				251,861
				555,094
707	1,041		609	7,279
<u>66,461</u>	<u>178,879</u>	<u>59,762</u>	<u>798,028</u>	<u>7,718,131</u>
				1,398,258
1,071	102,763			1,411,914
900				157,718
12,044		102,988		260,141
3,261				349,018
102,430				1,228,910
				36,973
			734,924	902,967
			500	1,624,247
<u>119,706</u>	<u>102,763</u>	<u>102,988</u>	<u>735,424</u>	<u>\$ 7,370,146</u>
(53,245)	76,116	(43,226)	62,604	347,985
				(8,131)
				237,904
				(136,402)
	26	45,026		246,641
				(246,641)
	<u>26</u>	<u>45,026</u>		<u>93,371</u>
(53,245)	76,142	1,800	62,604	441,356
282,923	351,498		118	3,922,058
<u>\$ 229,678</u>	<u>\$ 427,640</u>	<u>\$ 1,800</u>	<u>\$ 62,722</u>	<u>\$ 4,363,414</u>
\$ 229,678	\$ 433,765	\$ 1,800	\$ 62,722	\$ 4,530,315
				331
	(6,125)			(167,232)
<u>\$ 229,678</u>	<u>\$ 427,640</u>	<u>\$ 1,800</u>	<u>\$ 62,722</u>	<u>\$ 4,363,414</u>

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

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TO THE FINANCIAL STATEMENT**

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HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck 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.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(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.

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

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

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

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

D. Budgetary Information

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

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

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

The state local finance officer does not require the 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.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Hancock County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Hancock County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Hancock County Fiscal Court.

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

F. Deposits and Investments

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

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

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

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2018, 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 2018.

	General Fund	Jail Fund	Total Transfers In
General Fund	\$	\$ 1,589	\$ 1,589
Road Fund	185,000		185,000
Jail Fund	15,000		15,000
E911 Fund	26		26
Federal Grant Fund	45,026		45,026
Total Transfers Out	<u>\$ 245,052</u>	<u>\$ 1,589</u>	<u>\$ 246,641</u>

Reason for transfers:

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

Note 4. Asset Held For Resale

Asset held for resale activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Asset Held for Resale Vehicle	\$ 136,402	\$ 137,904	\$ 136,402	\$ 137,904
Totals	<u>\$ 136,402</u>	<u>\$ 137,904</u>	<u>\$ 136,402</u>	<u>\$ 137,904</u>

Note 5. Long-term Debt

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

The Hancock County Fiscal Court issued Lease Revenue Bonds (Judicial Center Project), Series 2009 for \$11,625,000 for the purpose of acquiring, construction, and furnishing a new Judicial Center. The bonds require yearly principal payments due August 1 and interest payments due February 1 and August 1 with a variable interest rate. The bonds will mature on August 1, 2022. As of June 30, 2018, the principal balance was \$2,395,000. Future principal and interest requirements are:

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Long-term Debt (Continued)

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

Fiscal Year Ended June 30	Principal	Scheduled Interest
2019	570,000	74,356
2020	585,000	55,213
2021	610,000	34,300
2022	630,000	11,813
Totals	<u>\$ 2,395,000</u>	<u>\$ 175,682</u>

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

On May 1, 2017, the Hancock County Fiscal Court issued \$5,585,119 Public Improvement Corporation Lease Revenue Bonds with J.P. Morgan Chase for the purpose of financing the costs of the refunding and refinancing the outstanding Hancock County Public Improvement Corporation Lease Revenue Bonds, Series 2009 dated August 12, 2009, for the Hancock County Judicial Center Project. Principal payments are due August 1 and the interest payments are due February 1 and August 1 with a 2.23 percent interest rate. The bonds will mature on August 1, 2028. As of June 30, 2018, the principal balance was \$5,585,119. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$	\$ 124,548
2020		124,548
2021		124,548
2022	74,120	123,722
2023	735,616	114,693
2024-2028	3,932,559	317,146
2029	842,824	9,398
Totals	<u>\$ 5,585,119</u>	<u>\$ 938,603</u>

C. 2018 Ambulance

The Hancock County Fiscal Court borrowed \$100,000 from Mr. and Mrs. Floyd Bray Trust Fund, Hancock Bank & Trust Company, Trustee for the purchase of an ambulance effective March 7, 2018. Terms of the agreement stipulate a four-and-a-half-year repayment schedule (final payment due August 15, 2022) with an interest rate of 2.18 percent. As of June 30, 2018, the principal balance was \$100,000. Future principal and interest requirements are:

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Long-term Debt (Continued)

C. 2018 Ambulance (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 20,112	\$ 962
2020	19,332	1,742
2021	19,749	1,324
2022	20,184	890
2023	20,623	450
Totals	<u>\$ 100,000</u>	<u>\$ 5,368</u>

D. 2017 Mack Truck Lease

The Hancock County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to finance the purchase of a GU713 Mack Truck on October 14, 2017. The lease is for \$137,904 at a 3.75 percent interest rate. Interest payments are due by the 20th of each month for 18 months. As of June 30, 2018, the principal balance was \$137,904. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2019	\$ 137,904	\$ 4,310
Totals	<u>\$ 137,904</u>	<u>\$ 4,310</u>

E. Loader

The Hancock County Fiscal Court borrowed \$100,000 from the Green River Area Development District for the purchase of a loader effective December 3, 2014. Terms of the agreement stipulate a four-year repayment schedule with an interest rate of 2.44 percent. As of June 30, 2018, the principal balance was \$25,191. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 25,191	\$ 708
Totals	<u>\$ 25,191</u>	<u>\$ 708</u>

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Long-term Debt (Continued)

F. Fire Truck

The Hancock County Fiscal Court borrowed \$68,469 from the Green River Area Development District for the purchase of a fire truck effective January 11, 2017. Terms of the agreement stipulate a four-year repayment schedule with an interest rate of 2.81 percent. As of June 30, 2018, the principal balance was \$50,886. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 16,907	\$ 1,430
2020	17,382	955
2021	16,597	466
Totals	<u>\$ 50,886</u>	<u>\$ 2,851</u>

G. 2014 Ambulance

The Hancock County Fiscal Court borrowed \$60,000 from the Green River Area Development District for the purchase of an ambulance effective December 26, 2013. Terms of the agreement stipulate a four-year repayment schedule with an interest rate of 2.44 percent. The debt was paid off on July 10, 2017.

H. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Hancock County Revenue Bonds (2009)	\$ 2,945,000	\$	\$ 550,000	\$ 2,395,000	\$ 570,000
Hancock County Revenue Bonds (2017)	5,585,119			5,585,119	
Financing Obligations	269,861	237,904	193,784	313,981	200,114
Total Long-term Debt	<u>\$ 8,799,980</u>	<u>\$ 237,904</u>	<u>\$ 743,784</u>	<u>\$ 8,294,100</u>	<u>\$ 770,114</u>

Note 6. Loan Receivable

The Hancock County Fiscal Court approved on August 28, 2017, to make a loan to the Hancock County Airport Board in the amount of \$24,217 for legal expenses related to extending the runway.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 7. Employee Retirement System

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2016 was \$373,729, FY 2017 was \$427,380, and FY 2018 was \$412,175.

Nonhazardous

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 be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 19.18 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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:

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

Benefits are covered under KRS 161.714 with exception of cost of living adjustment (COLA) and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, they 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 by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5% COLA since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic COLA provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

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 proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 8. Deferred Compensation

During fiscal year 2003, the Hancock County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

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

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

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 9. Health Reimbursement Account/Flexible Spending Account

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

Note 10. Insurance

For the fiscal year ended June 30, 2018, the Hancock County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Landfill Closure and Post-Closure Costs

The Hancock County Landfill was closed on June 20, 1995. The fiscal court must comply with established state and federal landfill closure and post-closure procedures and must perform maintenance and monitoring procedures at the site for 30 years after closure. Estimated final date for maintenance and monitoring is 2028. Estimated post-closure costs total \$170,900 as of June 30, 2018, or \$17,090 per year. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. It is anticipated that post-closure costs will be paid out of the general fund to the extent that funds are available with any excess costs being funded using long-term borrowings.

Note 12. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2018, was added to the general fund cash balance for financial reporting purposes.

Note 13. Conduit Debt

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

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 14. Subsequent Events

A. Jeffery's Cliff Project

The Hancock County Fiscal Court received a grant, with a period of performance of November 11, 2017 through June 30, 2020, from the Kentucky Energy and Environment Cabinet, Kentucky Heritage Land Conservation Fund Board in an amount up to \$438,000 towards acquisition of the 140-acre tract in the Application for Phase II of the Jeffery's Cliff Project.

On October 9, 2018, the Hancock County Fiscal Court purchased a tract of land for \$390,000.

On January 31, 2019, the Hancock County Fiscal Court purchased an option for \$1,000 to purchase a tract of land for \$160,000. This option expires on January 30, 2024, and may be exercised at any time before the expiration date.

B. Hancock County - Ron Lewis Field Runway Extension

Hancock County and the Hancock County Airport Board received a grant from the Federal Aviation Administration (FAA) on August 9, 2018, for the runway extension. This FAA grant will pay 90 percent of the cost up to \$1,855,933. The Hancock County Airport Board has requested the fiscal court to pay 5 percent of the total project cost which amounts to \$76,870.

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 3,074,147	\$ 3,074,147	\$ 4,131,650	\$ 1,057,503
In Lieu Tax Payments	10,200	10,200	10,171	(29)
Excess Fees	64,926	64,926	250,876	185,950
Licenses and Permits	26,050	26,050	9,719	(16,331)
Intergovernmental	379,972	379,972	302,441	(77,531)
Charges for Services	238,218	238,218	239,156	938
Miscellaneous	278,330	278,330	354,287	75,957
Interest	1,600	1,600	4,132	2,532
Total Receipts	<u>4,073,443</u>	<u>4,073,443</u>	<u>5,302,432</u>	<u>1,228,989</u>
DISBURSEMENTS				
General Government	1,660,937	1,713,280	1,398,258	315,022
Protection to Persons and Property	1,115,977	1,352,859	1,210,517	142,342
General Health and Sanitation	216,746	220,196	156,818	63,378
Social Services	208,127	218,942	145,109	73,833
Recreation and Culture	357,496	420,814	345,757	75,057
Airports	10,000	36,972	36,973	(1)
Administration	2,121,005	1,727,225	1,415,660	311,565
Total Disbursements	<u>5,690,288</u>	<u>5,690,288</u>	<u>4,709,092</u>	<u>981,196</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,616,845)</u>	<u>(1,616,845)</u>	<u>593,340</u>	<u>2,210,185</u>
Other Adjustments to Cash (Uses)				
Loan Proceeds			100,000	100,000
Transfers from Other Funds			1,589	1,589
Transfers to Other Funds	(721,000)	(721,000)	(245,052)	475,948
Total Other Adjustments to Cash (Uses)	<u>(721,000)</u>	<u>(721,000)</u>	<u>(143,463)</u>	<u>577,537</u>
Net Change in Fund Balance	(2,337,845)	(2,337,845)	449,877	2,787,722
Fund Balance - Beginning	<u>2,337,845</u>	<u>2,337,845</u>	<u>3,086,499</u>	<u>748,654</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,536,376</u>	<u>\$ 3,536,376</u>

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,105,809	\$ 1,105,809	\$ 1,014,908	\$ (90,901)
Miscellaneous	108,100	108,100	199,218	91,118
Interest	500	500	790	290
Total Receipts	<u>1,214,409</u>	<u>1,214,409</u>	<u>1,214,916</u>	<u>507</u>
DISBURSEMENTS				
Roads	1,460,613	1,563,238	1,126,480	436,758
Debt Service	170,045	170,045	168,043	2,002
Administration	452,251	349,626	190,500	159,126
Total Disbursements	<u>2,082,909</u>	<u>2,082,909</u>	<u>1,485,023</u>	<u>597,886</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(868,500)</u>	<u>(868,500)</u>	<u>(270,107)</u>	<u>598,393</u>
Other Adjustments to Cash (Uses)				
Loan Proceeds			137,904	(137,904)
Loan Payoff			(136,402)	136,402
Lease Proceeds	136,500	136,500		136,500
Transfers from Other Funds	550,000	550,000	185,000	365,000
Total Other Adjustments to Cash (Uses)	<u>686,500</u>	<u>686,500</u>	<u>186,502</u>	<u>499,998</u>
Net Change in Fund Balance	(182,000)	(182,000)	(83,605)	98,395
Fund Balance - Beginning	<u>182,000</u>	<u>182,000</u>	<u>187,164</u>	<u>5,164</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 103,559</u>	<u>\$ 103,559</u>

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 85,000	\$ 85,000	\$ 83,359	\$ (1,641)
Charges for Services	19,000	19,000	12,705	(6,295)
Miscellaneous	1,000	1,000	1,589	589
Total Receipts	<u>105,000</u>	<u>105,000</u>	<u>97,653</u>	<u>(7,347)</u>
DISBURSEMENTS				
Protection to Persons and Property	245,134	246,042	97,563	148,479
Administration	33,866	32,958	17,587	15,371
Total Disbursements	<u>279,000</u>	<u>279,000</u>	<u>115,150</u>	<u>163,850</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(174,000)</u>	<u>(174,000)</u>	<u>(17,497)</u>	<u>156,503</u>
Other Adjustments to Cash (Uses)				
Transfers from Other Funds	171,000	171,000	15,000	(156,000)
Transfers to Other Funds			(1,589)	(1,589)
Total Other Adjustments to Cash (Uses)	<u>171,000</u>	<u>171,000</u>	<u>13,411</u>	<u>(157,589)</u>
Net Change in Fund Balance	(3,000)	(3,000)	(4,086)	(1,086)
Fund Balance - Beginning	<u>3,000</u>	<u>3,000</u>	<u>5,394</u>	<u>2,394</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,308</u>	<u>\$ 1,308</u>

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 64,100	\$ 64,100	\$ 65,754	\$ 1,654
Miscellaneous Revenues	100	100		(100)
Interest	500	500	707	207
Total Receipts	<u>64,700</u>	<u>64,700</u>	<u>66,461</u>	<u>1,761</u>
DISBURSEMENTS				
Protection to Persons and Property	5,000	5,000	1,071	3,929
General Health and Sanitation	3,300	3,300	900	2,400
Social Services	21,950	21,950	12,044	9,906
Recreation and Culture	5,900	5,900	3,261	2,639
Roads	253,550	253,550	102,430	151,120
Total Disbursements	<u>289,700</u>	<u>289,700</u>	<u>119,706</u>	<u>169,994</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(225,000)</u>	<u>(225,000)</u>	<u>(53,245)</u>	<u>171,755</u>
Net Change in Fund Balance	(225,000)	(225,000)	(53,245)	171,755
Fund Balance - Beginning	<u>225,000</u>	<u>225,000</u>	<u>282,923</u>	<u>57,923</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 229,678</u>	<u>\$ 229,678</u>

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	E911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 26,700	\$ 26,700	\$ 25,101	\$ (1,599)
Intergovernmental	70,000	70,000	152,737	82,737
Interest	300	300	1,041	741
Total Receipts	<u>97,000</u>	<u>97,000</u>	<u>178,879</u>	<u>81,879</u>
DISBURSEMENTS				
Protection to Persons and Property	<u>339,000</u>	<u>339,000</u>	<u>102,763</u>	<u>236,237</u>
Total Disbursements	<u>339,000</u>	<u>339,000</u>	<u>102,763</u>	<u>236,237</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(242,000)</u>	<u>(242,000)</u>	<u>76,116</u>	<u>318,116</u>
Other Adjustments to Cash (Uses)				
Transfers from Other Funds			<u>26</u>	<u>26</u>
Total Other Adjustments to Cash (Uses)			<u>26</u>	<u>26</u>
Net Change in Fund Balance	(242,000)	(242,000)	76,142	318,142
Fund Balance - Beginning	<u>242,000</u>	<u>242,000</u>	<u>351,498</u>	<u>109,498</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 427,640</u>	<u>\$ 427,640</u>

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

FEDERAL GRANT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 352,261	\$ 352,261	\$ 59,762	(292,499)
Total Receipts	<u>352,261</u>	<u>352,261</u>	<u>59,762</u>	<u>(292,499)</u>
DISBURSEMENTS				
Social Services	352,261	352,261	102,988	249,273
Total Disbursements	<u>352,261</u>	<u>352,261</u>	<u>102,988</u>	<u>249,273</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>(43,226)</u>	<u>(43,226)</u>
Other Adjustments to Cash (Uses)				
Transfers from Other Funds			45,026	45,026
Total Other Adjustments to Cash (Uses)			<u>45,026</u>	<u>45,026</u>
Net Change in Fund Balance			1,800	1,800
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,800</u>	<u>\$ 1,800</u>

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

June 30, 2018

Note 1. Budgetary Information

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

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

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

Note 2. Reconciliation of the General Fund to the Statement of Receipts, Disbursements, and Changes in Fund Balances

Reconciliation of the General Fund:

Intergovernmental-Budgetary Basis	\$ (143,463)
To adjust for change in Payroll Revolving Account	<u>(8,131)</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ (151,594)</u>
Ending Balance - Budgetary Basis	\$ 3,536,376
To adjust for Payroll Revolving Account	<u>331</u>
Total Ending Balance - Regulatory Basis	<u>\$ 3,536,707</u>

Note 3. Excess of Disbursements Over Appropriations

General fund airports disbursements exceeded budgeted appropriations by \$1.

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HANCOCK COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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HANCOCK COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land and Buildings	\$ 15,776,762	\$ 166,562	\$ 23,000	\$ 15,920,324
Vehicles and Equipment	3,258,115	337,490	136,402	3,459,203
Other Equipment	2,592,054	169,481		2,761,535
Infrastructure	5,308,253	427,613		5,735,866
Work In Progress		33,000		33,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 26,935,184</u>	<u>\$ 1,134,146</u>	<u>\$ 159,402</u>	<u>\$ 27,909,928</u>

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

June 30, 2018

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land and Buildings	\$ 10,000	10-40
Vehicles and Equipment	7,000	5-10
Other Equipment	5,000	5-10
Infrastructure	5,000	10-50

Note 2. Prior Period Adjustment

The beginning balance of Vehicles and Equipment was increased by \$271,304 to include two Mack trucks that were not included on the fiscal year 2017 capital asset listing. The first Mack truck was purchased in fiscal year 2016 for \$134,902 and the second was a Mack truck purchased in fiscal year 2017 for \$136,402.

**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***

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TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS
1700 EASTPOINT PARKWAY, SUITE 270
LOUISVILLE, KY 40223
BUSINESS: (502) 245-0775
FAX: (502) 245-0725
E-MAIL: wtichenor@tichenorassociates.com

The Honorable Jack B. McCaslin, Former Hancock County Judge/Executive
The Honorable Johnny W. Roberts, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

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

Independent Auditors' Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Hancock County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Hancock County Fiscal Court's financial statement and have issued our report thereon dated January 22, 2019.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies as items 2018-002, 2018-003, 2018-004, 2018-005, and 2018-006.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hancock County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2018-001.

Views of Responsible Official and Planned Corrective Action

Hancock County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county's responses were not subject to the auditing procedures applied in the audit of the financial statement, and according, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, KY

January 22, 2019

**HANCOCK COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**HANCOCK COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

STATE LAWS AND REGULATIONS:

2018-001 The Fiscal Court Failed To Make Continuing Financial Disclosures Required By Bond Agreements

The fiscal court failed to make the continuing financial disclosures that were required by Hancock County's bond issuances in fiscal year ended June 30, 2017. As a result, the fiscal court is not in compliance with debt covenants included in Hancock County's bond issuances.

This noncompliance could cause the fiscal court's bond rating to be affected. Additionally, bondholders could seek legal action to require the submission of required financial information.

Hancock County's Judicial Center Bonds state that the annual financial information will be provided to the Municipal Securities Rulemaking Board (MSRB) within 210 days after the last day of the county's fiscal year.

We recommend the fiscal court provide annual financial information to the MSRB as required by bond agreements.

Views of Responsible Official and Planned Corrective Action:

Current County Judge/Executive's Response: The Fiscal Court will correct this and provide annual financial information to the MSRB as required by the bond agreements.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2018-002 The Fiscal Court Does Not Have Adequate Control Over Credit Card Transactions

The fiscal court does not have adequate controls over credit card transactions. One out of 14 credit card transactions reviewed was missing the supporting receipt and eight out of 14 credit card transactions reviewed did not have an itemized receipt. Due to a lack of controls over credit card transactions, the fiscal court did not ensure all transactions had an itemized invoice. This deficiency over credit card disbursements occurred because of the fiscal court's lack of internal controls and oversight. Good internal controls dictate that adequate supporting documentation be maintained. We recommend the county develop internal control procedures to ensure all employees know to turn in an itemized invoice when paying with a credit card.

Views of Responsible Official and Planned Corrective Action:

Current County Judge/Executive's Response: This issue has been addressed in the past; but will be re-addressed and enforced in the in the future. Anyone NOT having the supporting/required documentation will be personally responsible for reimbursing the County!!!!

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2018-003 The Fiscal Court Lacks Segregation Of Duties Over Cash, Receipts, And Payroll

The county treasurer prepares reports for submission to the Department of Local Government, makes cash transfers between funds, and performs the bank reconciliations for all bank accounts. The county treasurer also processes all payroll transactions and prepares all payroll related reports. The county has compensating controls in place over payroll. The treasurer's assistant reviews all timesheets and prepares payroll. The treasurer reviews the payroll and prepares the payroll reports and contacts the bank to initiate the direct deposit of payroll.

Segregation of duties over these functions, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Due to the small size and budget restrictions, the fiscal court has limited options for establishing segregation of duties.

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

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

Views of Responsible Official and Planned Corrective Action:

Current County Judge/Executive's Response: The County Treasurer's office currently consists of 2 employees- the Treasurer and the Treasurer's Assistant. With the small department size and limited budget, it is difficult to segregate duties. We have compensating controls in place to help with this and continue to add controls to help. This has been a finding for Hancock County for years and will continue to be even with compensating controls in place until the budget allows us to add employees to the Treasurer's Office! That being said, the Treasurer does everything in her power to ensure that correct records are maintained and procedures are followed as required by the law since the County Treasurer is the SOLE Officer bonded to ensure this!!!

2018-004 The Fiscal Court Does Not Perform A Reconciliation Between Third-Party Vendor And Internal Documents For Ambulance Collections

During the audit, we asked the new EMS Director if he performs a reconciliation between the number of ambulance runs recorded in his log books compared to the billings from the third-party vendor to ensure that the correct amounts are being billed, collected and remitted to the county treasurer. The EMS Director stated that he was unaware that he needed to perform this reconciliation.

Due to a lack of desk procedures for the EMS Director, the new EMS Director was not aware that this reconciliation needed to be performed. In addition, there was a lack of controls to ensure that this reconciliation was performed.

When there is not a proper desk instruction for a given position, a new employee will not know all of the procedures required of him or her to completely satisfy all of the responsibilities of that position. In addition, when there are no internal controls in effect, some tasks, if not performed, will go unnoticed.

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2018-004 The Fiscal Court Does Not Perform A Reconciliation Between Third-Party Vendor And Internal Documents For Ambulance Collections (Continued)

Proper internal controls states there should be desk instructions for all key employees and detective controls to make sure that all tasks required to be performed are being completed timely and properly.

We recommend the fiscal court require all key positions to write desk instructions on their duties and tasks and to put detective controls in place to ensure key tasks are being performed timely and correctly.

Views of Responsible Official and Planned Corrective Action:

Current County Judge/Executive's Response: The County had a change in personnel. The new director was not made aware of this responsibility; but has since been informed and the proper reconciliations and reports will be performed.

2018-005 The Fiscal Court Does Not Have Written Loan Documentation For The Loan Made To The Airport Board

During the review of the fiscal court minutes, it was noted that the fiscal court approve to loan the airport board \$24,217 for legal fees due to the runway extension. Upon the request of the loan documents, we were informed that the fiscal court does not have a written loan document for this \$24,217 loan.

Due to a lack of controls over this loan, there were no formal documents drafted to state the requirements of this loan.

When there are no written documents to state the requirements of the loan, it makes it difficult for the county treasurer to know and track when the principal and interest payments are due.

Proper internal controls states there should be tracking of the loan as far as when the principal and interest payments are due and the amount of these payments. To be able to know this information, written loan documentation is required.

We recommend the county prepare written loan documentation on any loans made and to maintain a proper tracking system of the principal and interest payments due.

Views of Responsible Official and Planned Corrective Action:

Current County Judge/Executive's Response: The fiscal court will make sure that formal documents that state the requirements of any loan between the fiscal court and any entity will be prepared.

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2018-006 The Fiscal Court Does Not Maintain An Updated Capital Asset Listing

During our review of the fiscal court's capital asset listing we noted the following issues.

- Two additions were not included on the capital asset listing
 - Radio Equipment for Emergency Management
 - 2018 Mack Truck
- One deletion was still included on the capital asset listing
 - Food Pantry - HELP Office #2
- In reviewing the insurance addition and deletion requests, we noted 7 changes to the insurance that we could not trace to the fiscal court minutes and were not reflected on the capital asset listing.
 - Additions to Insurance
 - 2010 Kubota Zero Turn Mower
 - 2017 Dodge Ram 1500
 - 2004 Wacker 20kw generator
 - Deletions from Insurance
 - 1980 Chevy Pumper
 - 2018 Mack Truck – error on insurance request, should have been an addition
 - 2000 Kubota F3060
 - 2004 Case 590 SM

The fiscal court does not have controls in place to ensure the capital asset listing is updated on a timely basis when there are changes to the fiscal court's assets. When the capital asset listing is not properly maintained, there could be misuse or theft of an asset and the fiscal court would not realize that this activity has happened. Also, the fiscal court could be reporting the improper amount of assets in its financial statement. In addition, the fiscal courts assets may not be properly insured or the fiscal court may be insuring an asset that is no long owned by the county.

Good internal controls dictate that a capital asset listing be maintain and updated when changes occur.

We recommend the county develop internal control procedures to ensure that the capital asset listing is maintained when there are changes to the county's assets.

Views of Responsible Official and Planned Corrective Action:

Current County Judge/Executive's Response: Procedures will be put in place to ensure that this finding is corrected.

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

HANCOCK COUNTY FISCAL COURT

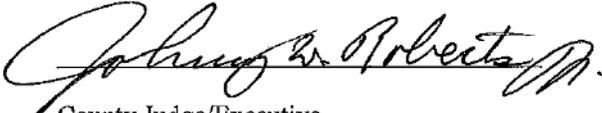
For The Year Ended June 30, 2018

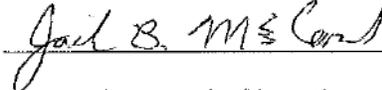
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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HANCOCK COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2018

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


County Judge/Executive


Former County Judge/Executive


County Treasurer