

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

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



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Jack B. McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the financial statement of Hancock County, Kentucky, for the year ended June 30, 2016.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal stroke extending to the right.

Mike Harmon
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT OF THE
HANCOCK COUNTY FISCAL COURT

June 30, 2016

Tichenor & Associates, LLP has completed the audit of the Hancock County Fiscal Court for the fiscal year ended June 30, 2016.

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

Financial Condition:

The Hancock County Fiscal Court had total receipts of \$7,931,598 and disbursements of \$7,453,020 in fiscal year 2016. This resulted in a total ending fund balance of \$3,941,981, which is an increase of \$502,711 from the prior year.

Findings:

- 2016-001 The Fiscal Court Does Not Have Adequate Internal Controls Over Credit Card Transactions
- 2016-002 The Payroll Revolving Account Was Not Properly Reconciled And Zeroed Out After Considering All Payroll Liabilities
- 2016-003 The Fiscal Court Lacks Segregation Of Duties Over Cash, Receipts, And Payroll
- 2016-004 The Fiscal Court Did Not Maintain Documentation For Employment Packages

Deposits:

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

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To the People of Kentucky
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Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Hancock County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Hancock County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Hancock County Fiscal Court as of June 30, 2016, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Hancock County Fiscal Court as of June 30, 2016, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

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

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2016 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:

- 2016-001 The Fiscal Court Does Not Have Adequate Internal Controls Over Credit Card Transactions
- 2016-002 The Payroll Revolving Account Was Not Properly Reconciled And Zeroed Out After Considering All Payroll Liabilities
- 2016-003 The Fiscal Court Lacks Segregation Of Duties Over Cash, Receipts, And Payroll
- 2016-004 The Fiscal Court Did Not Maintain Documentation For Employment Packages

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Certified Public Accountants

November 1, 2016

HANCOCK COUNTY OFFICIALS

For the Year Ended June 30, 2016

Fiscal Court Members:

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

Other Elected Officials:

Paul L. Madden, Jr.	County Attorney
Roger D. Estes	Jailer
Trina D. Ogle	County Clerk
Noel J. Quinn	Circuit Court Clerk
Ralph D. Bozarth	Sheriff
Michael C. Powers	Property Valuation Administrator
David C. Gibson	Coroner

Appointed Personnel:

Melissa J. Baker	County Treasurer
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HANCOCK COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For the Year Ended June 30, 2016

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

For the Year Ended June 30, 2016

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 4,104,604	\$	\$
In Lieu Tax Payments	10,171		
Excess Fees	118,043		
Licenses and Permits	80,222		
Intergovernmental	447,561	1,126,163	87,259
Charges for Services	270,173		12,336
Miscellaneous	335,980	316,294	
Interest	1,650	569	
Total Receipts	<u>5,368,404</u>	<u>1,443,026</u>	<u>99,595</u>
DISBURSEMENTS			
General Government	1,387,370		
Protection to Persons and Property	1,151,899		127,095
General Health and Sanitation	201,258		
Social Services	248,553		
Recreation and Culture	286,756		
Roads		1,121,874	
Airports	11,525		
Debt Service		162,881	
Administration	1,364,218	176,492	15,631
Total Disbursements	<u>4,651,579</u>	<u>1,461,247</u>	<u>142,726</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>716,825</u>	<u>(18,221)</u>	<u>(43,131)</u>
Other Adjustments to Cash (Uses)			
Payroll Revolving Account	24,133		
Transfers From Other Funds	8,340	189,000	40,000
Transfers To Other Funds	(238,438)		
Total Other Adjustments to Cash (Uses)	<u>(205,965)</u>	<u>189,000</u>	<u>40,000</u>
Net Change in Fund Balance	510,860	170,779	(3,131)
Fund Balance - Beginning (Restated)	2,562,633	179,798	10,171
Fund Balance - Ending	<u>\$ 3,073,493</u>	<u>\$ 350,577</u>	<u>\$ 7,040</u>
Composition of Fund Balance			
Bank Balance	\$ 3,056,241	\$ 350,603	\$ 7,172
Payroll Revolving Account	46,823		
Less: Outstanding Checks	(29,571)	(26)	(132)
Fund Balance - Ending	<u>\$ 3,073,493</u>	<u>\$ 350,577</u>	<u>\$ 7,040</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, 2016
(Continued)

<u>Budgeted Funds</u>		<u>Unbudgeted Funds</u>	
<u>Local Government Economic Assistance Fund</u>	<u>E911 Fund</u>	<u>Public Improvement Corporation Fund</u>	<u>Total Funds</u>
\$	\$ 25,759	\$	\$ 4,130,363
			10,171
			118,043
			80,222
47,274	98,008	848,729	2,654,994
			282,509
			652,274
438	365		3,022
<u>47,712</u>	<u>124,132</u>	<u>848,729</u>	<u>7,931,598</u>
			1,387,370
1,071	94,960		1,375,025
180			201,438
15,700			264,253
3,919			290,675
			1,121,874
			11,525
232,909		848,229	1,244,019
		500	1,556,841
<u>253,779</u>	<u>94,960</u>	<u>848,729</u>	<u>7,453,020</u>
<u>(206,067)</u>	<u>29,172</u>		<u>478,578</u>
			24,133
	1,098		238,438
			<u>(238,438)</u>
	<u>1,098</u>		<u>24,133</u>
(206,067)	30,270		502,711
406,975	279,575	118	3,439,270
<u>\$ 200,908</u>	<u>\$ 309,845</u>	<u>\$ 118</u>	<u>\$ 3,941,981</u>
\$ 200,908	\$ 316,670	\$ 118	\$ 3,931,712
			46,823
	<u>(6,825)</u>		<u>(36,554)</u>
<u>\$ 200,908</u>	<u>\$ 309,845</u>	<u>\$ 118</u>	<u>\$ 3,941,981</u>

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

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HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

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 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, 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, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal 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.

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.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Improvement 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 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.

The State Local Finance Officer does not require the Public Improvement 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, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Hancock County Elected Officials

Kentucky law provides for election of the officials 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, 2016
(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, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2016.

	General Fund	Total Transfers In
General Fund	\$ 8,340	\$ 8,340
Road Fund	189,000	189,000
Jail Fund	40,000	40,000
E911 Fund	1,098	1,098
Total Transfers Out	<u>\$ 238,438</u>	<u>\$ 238,438</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, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Asset Held for Resale:				
Vehicle	\$ 131,790	\$ 134,902	\$ 131,790	\$ 134,902
Totals	<u>\$ 131,790</u>	<u>\$ 134,902</u>	<u>\$ 131,790</u>	<u>\$ 134,902</u>

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

Note 5. Long-term Debt

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

The Hancock County Fiscal Court issued Lease Revenue Bonds (Judicial Center Project), Series 2009 for \$11,625,000 for the purpose of acquiring, construction, and furnishing a new judicial center. The bonds require yearly principal payments due August 1 and interest payments due February 1 and August 1 with a variable interest rate. The bonds will mature on August 1, 2028. As of June 30, 2016, the principal balance was \$8,660,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2017	\$ 535,000	\$ 314,373
2018	550,000	298,766
2019	570,000	281,610
2020	585,000	262,466
2021	610,000	241,554
2022-2026	3,410,000	618,301
2027-2029	<u>2,400,000</u>	<u>150,910</u>
Totals	<u>\$ 8,660,000</u>	<u>\$ 2,167,980</u>

B. Ambulance

The Hancock County Fiscal Court borrowed \$60,000 from Green River Area Development District for the purchase of an ambulance effective December 26, 2013. Terms of the agreement stipulate a four-year repayment schedule with an interest rate of 2.44 percent. As of June 30, 2016, the principal balance was \$29,811. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 15,199	\$ 727
2018	<u>14,612</u>	<u>357</u>
Totals	<u>\$ 29,811</u>	<u>\$ 1,084</u>

C. 2015 Mack Truck Lease

The Hancock County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to finance the purchase of a Mack dump truck on September 29, 2015. The lease is for \$134,902 at a 3.75 percent interest rate. Interest payments are due by the 20th of each month. As of June 30, 2016, the principal balance was \$134,902. Future principal and interest requirements are:

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

Note 5. Long-term Debt (Continued)

C. 2015 Mack Truck Lease (Continued)

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 134,902	\$ 5,059
Totals	<u>\$ 134,902</u>	<u>\$ 5,059</u>

D. Loader

The Hancock County Fiscal Court borrowed \$100,000 from Green River Area Development District for the purchase of a loader effective December 3, 2014. Terms of the agreement stipulate a four-year repayment schedule with an interest rate of 2.44 percent. As of June 30, 2016, the principal balance was \$74,894. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 24,716	\$ 1,827
2018	25,319	1,224
2019	<u>24,859</u>	<u>607</u>
Totals	<u>\$ 74,894</u>	<u>\$ 3,658</u>

E. Changes in Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 9,180,000	\$	\$ 520,000	\$ 8,660,000	\$ 535,000
Financing Obligations	<u>276,438</u>	<u>134,902</u>	<u>171,733</u>	<u>239,607</u>	<u>174,817</u>
Total Long-term Debt	<u>\$ 9,456,438</u>	<u>\$ 134,902</u>	<u>\$ 691,733</u>	<u>\$ 8,899,607</u>	<u>\$ 709,817</u>

Note 6. Employee Retirement System

A. Plan Description

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

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

Note 6. Employee Retirement System (Continued)

A. Plan Description (Continued)

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

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

The county's contribution for FY 2014 was \$420,473, FY 2015 was \$396,239, and FY 2016 was \$373,729.

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.

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

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

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

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

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

Note 6. Employee Retirement System (Continued)

A. Plan Description (Continued)

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

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/employers/GASB/Pages/GASB-Library.aspx>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 7. Deferred Compensation

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

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

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

Note 8. Health Reimbursement Account

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 toward the employee's deductible. Employees must pay \$2,000 of their deductible first and once this has been done they can request reimbursement up to \$3,000. In order to receive the reimbursement of \$3,000, the employee must provide the county treasurer with documentation that the \$2,000 has been paid and sign a form requesting reimbursement.

Note 9. Insurance

For the fiscal year ended June 30, 2016, 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.

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

Note 10. Landfill Closure and Post-Closure Costs

The Hancock County Landfill was closed on June 20, 1995. The fiscal court must comply with established state and federal landfill closure and post-closure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. Estimated final date for maintenance and monitoring is 2028. Estimated post-closure costs total \$223,902 as of June 30, 2016, or \$18,659 per year. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. It is anticipated that post-closure costs will be paid out of the general fund to the extent that funds are available with any excess costs being funded using long-term borrowing.

Note 11. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2015, was \$22,690. The reconciled balance as of June 30, 2016, was \$46,823. Therefore, the net change of \$24,133 will be included in the general fund for financing reporting purposes.

Note 12. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to various entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the 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.

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HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For the Year Ended June 30, 2016

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For the Year Ended June 30, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 3,069,547	\$ 3,106,747	\$ 4,104,604	\$ 997,857
In Lieu Tax Payments	10,200	10,200	10,171	(29)
Excess Fees	136,400	136,400	118,043	(18,357)
Licenses and Permits	16,050	71,050	80,222	9,172
Intergovernmental	507,090	513,590	447,561	(66,029)
Charges for Services	326,218	339,218	270,173	(69,045)
Miscellaneous	295,130	327,330	335,980	8,650
Interest	2,300	2,300	1,650	(650)
Total Receipts	<u>4,362,935</u>	<u>4,506,835</u>	<u>5,368,404</u>	<u>861,569</u>
DISBURSEMENTS				
General Government	1,555,925	1,638,164	1,387,370	250,794
Protection to Persons and Property	1,020,491	1,245,676	1,151,899	93,777
General Health and Sanitation	195,253	220,260	201,258	19,002
Social Services	252,099	268,844	248,553	20,291
Recreation and Culture	365,063	394,532	286,756	107,776
Airport	10,000	11,525	11,525	
Administration	2,156,403	2,520,315	1,364,218	1,156,097
Total Disbursements	<u>5,555,234</u>	<u>6,299,316</u>	<u>4,651,579</u>	<u>1,647,737</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,192,299)</u>	<u>(1,792,481)</u>	<u>716,825</u>	<u>2,509,306</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			8,340	8,340
Transfers To Other Funds	(632,139)	(632,139)	(238,438)	393,701
Total Other Adjustments to Cash (Uses)	<u>(632,139)</u>	<u>(632,139)</u>	<u>(230,098)</u>	<u>402,041</u>
Net Change in Fund Balance	(1,824,438)	(2,424,620)	486,727	2,911,347
Fund Balance - Beginning (Restated)	<u>1,824,438</u>	<u>2,424,620</u>	<u>2,539,943</u>	<u>115,323</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,026,670</u>	<u>\$ 3,026,670</u>

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

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,187,346	\$ 1,194,846	\$ 1,126,163	\$ (68,683)
Miscellaneous	188,100	298,100	316,294	18,194
Interest	1,000	1,000	569	(431)
Total Receipts	<u>1,376,446</u>	<u>1,493,946</u>	<u>1,443,026</u>	<u>(50,920)</u>
DISBURSEMENTS				
Roads	1,513,779	1,618,750	1,121,874	496,876
Debt Service	168,252	168,252	162,881	5,371
Administration	419,915	436,645	176,492	260,153
Total Disbursements	<u>2,101,946</u>	<u>2,223,647</u>	<u>1,461,247</u>	<u>762,400</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(725,500)</u>	<u>(729,701)</u>	<u>(18,221)</u>	<u>711,480</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	550,000	550,000	189,000	(361,000)
Total Other Adjustments to Cash (Uses)	<u>550,000</u>	<u>550,000</u>	<u>189,000</u>	<u>(361,000)</u>
Net Change in Fund Balance	(175,500)	(179,701)	170,779	350,480
Fund Balance - Beginning	<u>175,500</u>	<u>179,701</u>	<u>179,798</u>	<u>97</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 350,577</u>	<u>\$ 350,577</u>

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

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 85,000	\$ 85,000	\$ 87,259	\$ 2,259
Charges for Services	19,000	19,000	12,336	(6,664)
Miscellaneous	1,000	1,000		(1,000)
Total Receipts	<u>105,000</u>	<u>105,000</u>	<u>99,595</u>	<u>(5,405)</u>
DISBURSEMENTS				
Protection to Persons and Property	246,505	248,860	127,095	121,765
Administration	32,495	37,140	15,631	21,509
Total Disbursements	<u>279,000</u>	<u>286,000</u>	<u>142,726</u>	<u>143,274</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(174,000)</u>	<u>(181,000)</u>	<u>(43,131)</u>	<u>137,869</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	171,000	171,000	40,000	(131,000)
Total Other Adjustments to Cash (Uses)	<u>171,000</u>	<u>171,000</u>	<u>40,000</u>	<u>(131,000)</u>
Net Change in Fund Balance	(3,000)	(10,000)	(3,131)	6,869
Fund Balance - Beginning	<u>3,000</u>	<u>10,000</u>	<u>10,171</u>	<u>171</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,040</u>	<u>\$ 7,040</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 100,600	\$ 100,600	\$ 47,274	\$ (53,326)
Interest	500	500	438	(62)
Miscellaneous Revenue	100	100		(100)
Total Receipts	101,200	101,200	47,712	(53,488)
DISBURSEMENTS				
Protection to Persons and Property	5,000	5,000	1,071	3,929
General Health and Sanitation	3,300	3,300	180	3,120
Recreation and Culture	5,400	5,400	3,919	1,481
Social Services	1,500	25,200	15,700	9,500
Roads	346,050	468,800	232,909	235,891
Total Disbursements	361,250	507,700	253,779	253,921
Net Change in Fund Balance	(260,050)	(406,500)	(206,067)	200,433
Fund Balance - Beginning	260,050	406,500	406,975	475
Fund Balance - Ending	\$ 0	\$ 0	\$ 200,908	\$ 200,908

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

	E-911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 26,700	\$ 26,700	\$ 25,759	\$ (941)
Intergovernmental	70,000	70,000	98,008	28,008
Interest	500	500	365	(135)
Total Receipts	<u>97,200</u>	<u>97,200</u>	<u>124,132</u>	<u>26,932</u>
DISBURSEMENTS				
Protection to Persons and Property	77,000	106,960	94,960	12,000
Administration	262,200	270,240		270,240
Total Disbursements	<u>339,200</u>	<u>377,200</u>	<u>94,960</u>	<u>282,240</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(242,000)</u>	<u>(280,000)</u>	<u>29,172</u>	<u>309,172</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			1,098	1,098
Total Other Adjustments to Cash (Uses)			<u>1,098</u>	<u>1,098</u>
Net Change in Fund Balance	(242,000)	(280,000)	30,270	310,270
Fund Balance - Beginning	<u>242,000</u>	<u>280,000</u>	<u>279,575</u>	<u>(425)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 309,845</u>	<u>\$ 309,845</u>

HANCOCK COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the 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. Reconciliation of the General Fund

Reconciliation of the General Fund

Intergovernmental-Budgetary Basis	\$ (230,098)
To adjust for change in Payroll Account	<u>24,133</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ (205,965)</u>
Ending Balances - Budgetary Basis	\$ 3,026,670
To adjust for Payroll Account	<u>46,823</u>
Total Ending Balance - Regulatory Basis	<u>\$ 3,073,493</u>

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

HANCOCK COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For the Year Ended June 30, 2016

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (* Restated)	Additions	Deletions	Ending Balance
Land and Buildings	\$ 15,776,762	\$	\$	\$ 15,776,762
Vehicles and Equipment *	2,723,931	225,860	147,811	2,801,980
Other Equipment	2,580,736			2,580,736
Infrastructure	4,228,142	643,819		4,871,961
 Total Capital Assets	 <u>\$ 25,309,571</u>	 <u>\$ 869,679</u>	 <u>\$ 147,811</u>	 <u>\$ 26,031,439</u>

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

June 30, 2016

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, other equipment, vehicles, building improvements, 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	10-25
Buildings	10,000	10-40
Other Equipment	5,000	5-10
Vehicles	7,500	5-10
Infrastructure - Roads	10,000	10-25
Infrastructure - Bridges	5,000	10-50

Note 2. Restatement of Beginning Balance

Vehicles were restated by decreasing \$14,075 to correct a prior year error.

**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***

TICHENOR & ASSOCIATES, LLP

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

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Hancock County Fiscal Court for the fiscal year ended June 30, 2016 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 November 1, 2016.

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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, 2016-003, and 2016-004 to be material weaknesses.

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Hancock County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2016-001.

County Judge/Executive's Responses to Findings

The Hancock County Judge/Executive's responses to the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The Hancock County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Certified Public Accountants

November 1, 2016

**HANCOCK COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2016

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Fiscal Court Does Not Have Adequate Internal Controls Over Credit Card Transactions

The Hancock County Fiscal Court does not have adequate internal controls over credit card transactions. The following disbursement deficiency was noted:

- Eight hotel bills paid via credit card transactions included state tax payments when the county is a tax-exempt organization.

This deficiency over credit card disbursements occurred because of the fiscal court's lack of internal controls and oversight. The fiscal court paid sales tax when the county is a tax-exempt organization. We recommend that the county develop internal control procedures to ensure all employees know the county is exempt from paying state sales tax.

County Judge/Executive's Response: When we received hotel invoices that have sales tax included, we do contact the hotel and try to get that refunded. All employees are well aware that they should be presenting the tax-exempt letter at the time of check-in. They have now been told to go to the desk and check-out and look to make sure there is no sales tax on the invoice. We will try to implement better controls to ensure this does not occur in the future.

2016-002 The Payroll Revolving Account Was Not Properly Reconciled and Zeroed Out After Considering All Payroll Liabilities

The county treasurer reconciles the payroll account each month, but is unable to reconcile it to zero after considering all payroll liabilities. There were no internal controls in place to determine the payroll account balance. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance. Since the payroll account has not been reconciled to zero or to a minimal carrying balance there could be monies in the payroll account which belong to other funds of the fiscal court. The lack of controls over payroll could cause misappropriation of county assets. We recommend the payroll account be properly reconciled and that the fiscal court establish internal controls to determine that the account is being properly handled.

County Judge/Executive's Response: The County Treasurer is in the process of correcting this matter.

2016-003 The Fiscal Court Lacks Adequate 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.

There were no documented compensating controls to offset the lack of segregation of duties to reduce the deficiency to less than a significant level. 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. A 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 errors and fraud.

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The Fiscal Court Lacks Adequate Segregation Of Duties Over Cash, Receipts, And Payroll
(Continued)

County Judge/Executive's Response: This issue has been addressed and we continue to try to implement procedures to improve internal controls.

2016-004 The Fiscal Court Did Not Maintain Documentation For Employment Packages

The Hancock County Fiscal Court did not have documentation to support the employment package for the EMS Director. The EMS Director is receiving multiple benefits as part of his employment package, including the use of a county vehicle and employee plus spouse insurance coverage. There was no documentation to support the EMS Director's employment package because of a lack of oversight by the county judge/executive. By not maintaining documentation of employment packages, employees could be receiving payments of benefits that they are not entitled to receive. Good internal controls dictate that all employment packages be in writing and all documentation be maintained by the fiscal court to ensure that all employees are receiving the appropriate benefits. We recommend that the fiscal court obtain all employment packages in writing and that the documentation be maintained.

County Judge/Executive's Response: This issue is in the process of being corrected in FY 2017.

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

HANCOCK COUNTY FISCAL COURT

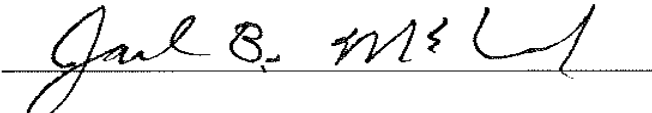
For the Fiscal Year Ended June 30, 2016

Appendix A

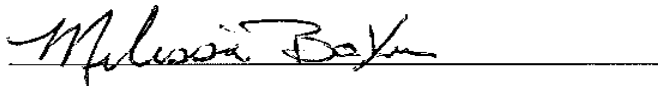
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HANCOCK COUNTY FISCAL COURT

For the Fiscal Year Ended June 30, 2016

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



County Judge/Executive



County Treasurer

