

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

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



**MIKE HARMON
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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT.....	1
HOPKINS COUNTY OFFICIALS	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS	6
NOTES TO FINANCIAL STATEMENT	9
BUDGETARY COMPARISON SCHEDULES	25
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES	31
SCHEDULE OF CAPITAL ASSETS	35
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS	36
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 <i>GOVERNMENT AUDITING STANDARDS</i>	39
SCHEDULE OF FINDINGS AND RESPONSES	43
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Donald E. Carroll, Hopkins County Judge/Executive

Members of the Hopkins County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Hopkins County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Hopkins County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Hopkins County Fiscal Court as of June 30, 2017, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Hopkins County Fiscal Court as of June 30, 2017, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

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

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

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The Honorable Donald E. Carroll, Hopkins County Judge/Executive

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2018, on our consideration of the Hopkins County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hopkins County Fiscal Court's internal control over financial reporting and compliance.

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

- 2017-001 The Hopkins County Fiscal Court Off-Site Locations Lack Adequate Controls Over Receipts And Deposits Are Not Made Daily
- 2017-002 The Hopkins County Fiscal Court's Capital Asset Schedule Was Inaccurate
- 2017-003 The Hopkins County Fiscal Court Failed To Follow Bidding Requirements For Drainage Pipe And Stone

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 16, 2018

HOPKINS COUNTY OFFICIALS**For The Year Ended June 30, 2017****Fiscal Court Members:**

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

Other Elected Officials:

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

Appointed Personnel:

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

For The Year Ended June 30, 2017

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

For The Year Ended June 30, 2017

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 10,048,044	\$	\$
Licenses and Permits	84,022		
Intergovernmental	3,027,631	1,968,969	3,522,238
Charges for Services	118		213,681
Miscellaneous	193,737	217,333	133,168
Interest	11,924	1,633	1,461
Total Receipts	<u>13,365,476</u>	<u>2,187,935</u>	<u>3,870,548</u>
DISBURSEMENTS			
Current:			
General Government	5,971,221		
Protection to Persons and Property	118,277		3,893,330
General Health and Sanitation	400		
Social Services			
Recreation and Culture			
Roads		2,690,564	
Debt Service	71,737	189,913	956,368
Capital Projects	9,906	35,655	
Administration	1,802,421	557,655	992,886
Total Disbursements	<u>7,973,962</u>	<u>3,473,787</u>	<u>5,842,584</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>5,391,514</u>	<u>(1,285,852)</u>	<u>(1,972,036)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds		1,150,000	2,020,000
Transfers To Other Funds	(4,240,000)		
Governmental Leasing Act Receipts	216,018	222,286	
Total Other Adjustments to Cash (Uses)	<u>(4,023,982)</u>	<u>1,372,286</u>	<u>2,020,000</u>
Net Change in Fund Balance	1,367,532	86,434	47,964
Fund Balance - Beginning (Restated)	1,290,073	408,409	600,997
Fund Balance - Ending	<u>\$ 2,657,605</u>	<u>\$ 494,843</u>	<u>\$ 648,961</u>
Composition of Fund Balance			
Bank Balance	\$ 2,698,371	\$ 595,484	\$ 732,479
Plus: Deposits In Transit			
Less: Outstanding Checks	(40,766)	(100,641)	(83,518)
Investments			
Fund Balance - Ending	<u>\$ 2,657,605</u>	<u>\$ 494,843</u>	<u>\$ 648,961</u>

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

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

Budgeted Funds		Unbudgeted Funds			Total Funds
Local Government Economic Assistance Fund	Contingency Fund	Local Government Economic Development Fund	Public Facilities Construction Corporation Fund	Jail Commissary Fund	
\$ 2,500	\$ 30,288	\$	\$	\$	\$ 10,050,544
1,774,877			1,511,950	14,873	114,310
283,801				663,088	11,820,538
72,109					1,160,688
1,191	9,429		165	528	616,347
<u>2,134,478</u>	<u>39,717</u>		<u>1,512,115</u>	<u>678,489</u>	<u>26,331</u>
					<u>23,788,758</u>
462,741					6,433,962
170,000					4,181,607
1,454,323					1,454,723
96,701					96,701
263,284				677,773	941,057
279,466					2,970,030
			1,511,450		2,729,468
					45,561
374,889			500		3,728,351
<u>3,101,404</u>			<u>1,511,950</u>	<u>677,773</u>	<u>22,581,460</u>
(966,926)	39,717		165	716	1,207,298
1,070,000					4,240,000
					(4,240,000)
					438,304
<u>1,070,000</u>					<u>438,304</u>
103,074	39,717		165	716	1,645,602
594,161	2,584,114		146,806	173,360	5,797,920
<u>\$ 697,235</u>	<u>\$ 2,623,831</u>	<u>\$ 0</u>	<u>\$ 146,971</u>	<u>\$ 174,076</u>	<u>\$ 7,443,522</u>
\$ 768,871	\$ 2,623,831	\$	\$ 11,798	\$ 202,419	\$ 7,633,253
				7,012	7,012
(71,636)				(35,355)	(331,916)
			135,173		135,173
<u>\$ 697,235</u>	<u>\$ 2,623,831</u>	<u>\$ 0</u>	<u>\$ 146,971</u>	<u>\$ 174,076</u>	<u>\$ 7,443,522</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	9
NOTE 2.	DEPOSITS AND INVESTMENTS	12
NOTE 3.	TRANSFERS.....	14
NOTE 4.	RECEIVABLE.....	14
NOTE 5.	LONG-TERM DEBT.....	14
NOTE 6.	COMMITMENT DEBT	17
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM.....	18
NOTE 8.	DEFERRED COMPENSATION	20
NOTE 9.	FLEXIBLE SPENDING ACCOUNT	20
NOTE 10.	INSURANCE.....	21
NOTE 11.	RELATED PARTY TRANSACTIONS	21
NOTE 12.	CONDUIT DEBT	21
NOTE 13.	PRIOR PERIOD ADJUSTMENTS	21

**HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2017

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

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

Local Government Economic Development Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from state and federal governments. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

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

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

D. Budgetary Information

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

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

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

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

E. Hopkins County Elected Officials

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

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

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

Note 2. Deposits and Investments

A. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

As of June 30, 2017, the fiscal court had the following investments and maturities:

Type	Cost Basis	Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
Mutual Funds	\$ 146,971	\$ 146,971			\$
Total Investments	\$ 146,971	\$ 146,971	\$ 0	\$ 0	\$ 0

Custodial Credit Risk is the risk that, in the event of failure of the counterparty, the fiscal court will not be able to recover the value of its certificates of deposit, investments, or collateral securities that are in the possession of an outside party. The fiscal court's investment policy requires counterparties to provide sufficient collateral or other insurance if any investments or deposits exceed the insurance provided by Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). All certificates of deposit and investments must be held by the counterparty in the fiscal court's name. The fiscal court has \$146,971 of investments in securities held by the counterparties' trust departments in the fiscal court's name. The SIPC provides up to \$500,000 coverage for securities and cash (limit of \$250,000 for cash) per client.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The fiscal court is statutorily limited as to credit ratings, at the time of purchase. KRS 66.480 and the fiscal court's investment policy define the following items as permissible investments:

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

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

- 1) Obligations of the United States and of its agencies and instrumentalities.
- 2) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
- 3) Obligations of any corporation of the United States Government.
- 4) 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 or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4).
- 5) Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by nationally recognized rating agency.
- 6) Bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.
- 7) Commercial paper rated in the highest category by a nationally recognized rating agency.
- 8) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities.
- 9) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency.
- 10) Shares of mutual funds, each of which shall have the following characteristics:
 - a) The mutual funds shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended.
 - b) The management company of the investment company shall have been in operation for at least five years.
 - c) All of the securities in the mutual fund shall be eligible investments pursuant to this section.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the fiscal court's investment in a single issuer. U.S. Government securities and investments in mutual funds are excluded from this risk. The fiscal court does not have five percent or more of the fiscal court's investments invested in any single security.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The fiscal court's policy provides that, to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. See table above for investments listed by type and duration.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The fiscal court's policy historically has been to invest only in securities in United States denominations.

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

Note 3. Transfers

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

	General Fund	Total Transfers In
Road Fund	\$ 1,150,000	\$ 1,150,000
Jail Fund	2,020,000	2,020,000
LGEA Fund	1,070,000	1,070,000
Total Transfers Out	<u>\$ 4,240,000</u>	<u>\$ 4,240,000</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. Receivable

The county loaned \$500,000 to the Hopkins County - Madisonville Public Library on January 7, 2014, for the purpose of making improvements to real estate. Terms of the agreement stipulate a 20 year repayment schedule at 1.175 percent interest. Records indicate Hopkins County-Madisonville Public Library is in substantial compliance with this requirement. As of June 30, 2017, the principal balance due was \$425,000.

Note 5. Long-term Debt

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

On June 1, 2010, the Hopkins County Public Properties Corporation issued \$19,410,000 of First Mortgage Revenue Bonds (Judicial Center Project), Series 2010, for the purpose of acquiring, constructing, and equipping a new Judicial Center. The bonds will mature on June 30, 2027. Interest is payable each June 1 and December 1. As of June 30, 2017, bonds outstanding were \$12,485,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 1,075,000	\$ 437,712
2019	1,105,000	405,462
2020	1,140,000	372,312
2021	1,180,000	335,263
2022	1,215,000	295,438
2023-2027	<u>6,770,000</u>	<u>797,263</u>
Totals	<u>\$ 12,485,000</u>	<u>\$ 2,643,450</u>

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

Note 5. Long-term Debt (Continued)

B. General Obligation Lease, Series 2014

On December 10, 2014, a lease agreement was entered into between Old National Bank (Lessor) and Hopkins County (Lessee) for the purpose of refinancing the Series 2005 General Obligation Refunding Bonds. In order to meet the outstanding bonds as they come due, the proceeds of the lease were used to establish a Redemption Fund in the amount of \$5,088,375.

The lease provides that it will be in effect for a term commencing on December 10, 2014, and ending on February 1, 2020, at an annual interest rate of 1.49 percent. As of June 30, 2017, bonds outstanding were \$2,628,943.

Fiscal Year Ending June 30	Principal	Interest
2018	\$ 865,000	\$ 39,187
2019	875,000	26,299
2020	888,943	13,261
Totals	<u>\$ 2,628,943</u>	<u>\$ 78,747</u>

C. Gradall Excavator

On July 31, 2014, the fiscal court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the sum of \$364,000 at a 2.445 percent fixed interest rate. The financing obligation was for the acquisition of a Gradall excavator. The maturity date of the obligation is August 20, 2017. The balance of the financing obligation at June 30, 2017, was \$20,787. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 20,787	\$ 64
Totals	<u>\$ 20,787</u>	<u>\$ 64</u>

D. HVAC

On November 18, 2014, the fiscal court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program as Administrator and PNC Equipment Finance, LLC as Lessor in the sum of \$495,000 at a 3.20 percent effective interest rate. The financing obligation was acquisition, installation, and equipping of an HVAC system. The maturity date of the obligation is June 20, 2025. The balance of the financing obligation at June 30, 2017, was \$408,273. Annual debt service requirements to maturity are as follows:

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

Note 5. Long-term Debt (Continued)

D. HVAC (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 46,856	\$ 12,380
2019	47,993	10,865
2020	49,157	9,312
2021	50,350	7,721
2022	52,823	4,424
2023-2025	161,094	14,195
Totals	<u>\$ 408,273</u>	<u>\$ 58,897</u>

E. Caterpillar On-Highway Trucks

On August 17, 2016, the fiscal court entered into a lease agreement with the Caterpillar Financial Services Corporation in the sum of \$222,286 at a 2.49 percent fixed interest rate. The financing obligation was for the acquisition of two Caterpillar On-Highway Trucks. The maturity date of the obligation is August 1, 2019. The balance of the financing obligation at June 30, 2017, was \$162,772. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 74,035	\$ 3,212
2019	75,900	1,347
2020	12,837	40
Totals	<u>\$ 162,772</u>	<u>\$ 4,599</u>

F. Sheriff's Trucks

On October 20, 2016, the fiscal court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the sum of \$207,769 at a 3.103 percent fixed interest rate. The financing obligation was for the acquisition of a sheriff's vehicles. The maturity date of the obligation is January 20, 2019. The balance of the financing obligation at June 30, 2017, was \$137,841. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 68,136	\$ 4,278
2019	69,705	2,163
Totals	<u>\$ 137,841</u>	<u>\$ 6,441</u>

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

Note 5. Long-term Debt (Continued)

G. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 13,530,000	\$	\$ 1,045,000	\$ 12,485,000	\$ 1,075,000
Financing Obligations	4,072,143	430,845	1,144,372	3,358,616	1,074,814
Total Long-term Debt	\$ 17,602,143	\$ 430,845	\$ 2,189,372	\$ 15,843,616	\$ 2,149,814

Note 6. Commitment Debt

A. Ambulance Service Contract

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

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

B. Hopkins County Regional Landfill

The Hopkins County Regional Landfill entered into an agreement with Hopkins County on October 31, 2011. Under the terms of the agreement, Hopkins County Regional Landfill is to provide waste management services for the county and citizens of Hopkins County, Kentucky. The Hopkins County Regional Landfill has also agreed to pay licensing fees to the county as mandated in Ordinance 2006-10. As of June 30, 2017, both parties were in compliance with this agreement.

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

Note 6. Commitment Debt (Continued)

C. South Main Sewer Project- Interlocal Cooperation Agreement

On December 23, 2009, Hopkins County (county) entered into an interlocal cooperation agreement with the City of Madisonville (city) for the construction, maintenance and operation of the South Main Sewer Project. The city has secured financing for this project from the Kentucky Infrastructure Authority in the form of an ARRA loan in the amount of \$3,800,000 bearing interest at the rate of 2 percent per annum to be repaid over a term of 20 years. The county has agreed to provide financial assistance to the city to help pay a portion of the debt service incurred by the city. The county has agreed to pay the city the sum of \$110,000 per year for a period of 20 years payable in equal semi-annual installments of \$55,000 on or before June 1 and December 1 of each year beginning May 15, 2010.

Note 7. Employee Retirement System

The fiscal court has elected to participate, 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 2015 was \$1,418,548, FY 2016 was \$1,337,381, and FY 2017 was \$1,446,282.

Nonhazardous

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

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

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

The county's contribution rate for nonhazardous employees was 18.68 percent.

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

Note 7. Employee Retirement System (Continued)

Hazardous

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund.

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. Hazardous members contribute eight percent of their annual creditable compensation and also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the 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 hazardous member's account is credited with a seven and one-half percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for hazardous employees was 31.06 percent.

Health Insurance Coverage

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.

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

Note 7. Employee Retirement System (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov>. 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

In February 2000, the Hopkins County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

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

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

Note 9. Flexible Spending Account

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

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

Note 10. Insurance

For the fiscal year ended June 30, 2017, the Hopkins County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Related Party Transactions

The Hopkins County Sheriff is on the board of directors for a supply company his father owns. The Hopkins County Fiscal Court paid \$18,933 to this supply company in fiscal year ending June 30, 2017.

Note 12. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to various entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Hopkins County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2017, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

Note 13. Prior Period Adjustments

The beginning fund balance was restated for the following:

Prior Year Ending Fund Balance	\$ 5,797,289
Adjustments:	
Rounding - General Fund	1
Prior Year Voided Checks-Jail Commissary Fund	<u>630</u>
Beginning Fund Balance Restated	<u>\$ 5,797,920</u>

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

For The Year Ended June 30, 2017

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HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 7,330,000	\$ 8,730,000	\$ 10,048,044	\$ 1,318,044
Licenses and Permits	74,000	74,000	84,022	10,022
Intergovernmental	2,908,735	2,908,735	3,027,631	118,896
Charges for Services	1,000	1,000	118	(882)
Miscellaneous	176,125	176,125	193,737	17,612
Interest	12,000	12,000	11,924	(76)
Total Receipts	<u>10,501,860</u>	<u>11,901,860</u>	<u>13,365,476</u>	<u>1,463,616</u>
DISBURSEMENTS				
General Government	5,019,987	6,309,380	5,971,221	338,159
Protection to Persons and Property	164,674	164,674	118,277	46,397
General Health and Sanitation	400	400	400	
Debt Service		85,000	71,737	13,263
Capital Projects	10,000	10,000	9,906	94
Administration	2,193,127	2,434,752	1,802,421	632,331
Total Disbursements	<u>7,388,188</u>	<u>9,004,206</u>	<u>7,973,962</u>	<u>1,030,244</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>3,113,672</u>	<u>2,897,654</u>	<u>5,391,514</u>	<u>2,493,860</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(4,613,672)	(4,613,672)	(4,240,000)	(373,672)
Governmental Leasing Act Receipts		216,018	216,018	
Total Other Adjustments to Cash (Uses)	<u>(4,613,672)</u>	<u>(4,397,654)</u>	<u>(4,023,982)</u>	<u>(373,672)</u>
Net Change in Fund Balance	(1,500,000)	(1,500,000)	1,367,532	2,867,532
Fund Balance - Beginning (Restated)	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,290,073</u>	<u>(209,927)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,657,605</u>	<u>\$ 2,657,605</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,775,541	\$ 2,775,541	\$ 1,968,969	\$ (806,572)
Miscellaneous	1,500	1,500	217,333	215,833
Interest	1,500	1,500	1,633	133
Total Receipts	<u>2,778,541</u>	<u>2,778,541</u>	<u>2,187,935</u>	<u>(590,606)</u>
DISBURSEMENTS				
Roads	3,136,738	3,362,224	2,690,564	671,660
Debt Service	125,550	194,650	189,913	4,737
Capital Projects	750,000	750,000	35,655	714,345
Administration	710,000	637,700	557,655	80,045
Total Disbursements	<u>4,722,288</u>	<u>4,944,574</u>	<u>3,473,787</u>	<u>1,470,787</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,943,747)</u>	<u>(2,166,033)</u>	<u>(1,285,852)</u>	<u>880,181</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,539,104	1,539,104	1,150,000	(389,104)
Governmental Leasing Act Receipts		222,286	222,286	
Total Other Adjustments to Cash (Uses)	<u>1,539,104</u>	<u>1,761,390</u>	<u>1,372,286</u>	<u>(389,104)</u>
Net Change in Fund Balance	(404,643)	(404,643)	86,434	491,077
Fund Balance - Beginning	<u>404,643</u>	<u>404,643</u>	<u>408,409</u>	<u>3,766</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 494,843</u>	<u>\$ 494,843</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 3,084,800	\$ 3,084,800	\$ 3,522,238	\$ 437,438
Charges for Services	195,100	195,100	213,681	18,581
Miscellaneous	132,300	132,300	133,168	868
Interest	1,000	1,000	1,461	461
Total Receipts	<u>3,413,200</u>	<u>3,413,200</u>	<u>3,870,548</u>	<u>457,348</u>
DISBURSEMENTS				
Protection to Persons and Property	4,113,442	4,125,942	3,893,330	232,612
Debt Service	956,420	956,420	956,368	52
Administration	1,136,600	1,124,100	992,886	131,214
Total Disbursements	<u>6,206,462</u>	<u>6,206,462</u>	<u>5,842,584</u>	<u>363,878</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,793,262)</u>	<u>(2,793,262)</u>	<u>(1,972,036)</u>	<u>821,226</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>2,193,262</u>	<u>2,193,262</u>	<u>2,020,000</u>	<u>(173,262)</u>
Total Other Adjustments to Cash (Uses)	<u>2,193,262</u>	<u>2,193,262</u>	<u>2,020,000</u>	<u>(173,262)</u>
Net Change in Fund Balance	(600,000)	(600,000)	47,964	647,964
Fund Balance - Beginning	<u>600,000</u>	<u>600,000</u>	<u>600,997</u>	<u>997</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 648,961</u>	<u>\$ 648,961</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
License and Permits	\$ 3,000	\$ 3,000	\$ 2,500	\$ (500)
Intergovernmental	2,235,000	2,235,000	1,774,877	(460,123)
Charges for Services	236,500	236,500	283,801	47,301
Miscellaneous Revenues	40,300	40,300	72,109	31,809
Interest	1,000	1,000	1,191	191
Total Receipts	<u>2,515,800</u>	<u>2,515,800</u>	<u>2,134,478</u>	<u>(381,322)</u>
DISBURSEMENTS				
General Government	928,248	928,248	462,741	465,507
Protection to Persons and Property	200,000	200,000	170,000	30,000
General Health and Sanitation	1,482,014	1,539,564	1,454,323	85,241
Social Services	113,844	113,844	96,701	17,143
Recreation and Culture	278,500	278,500	263,284	15,216
Road	360,000	360,000	279,466	80,534
Capital Projects	100,000	100,000		100,000
Administration	534,500	476,950	374,889	102,061
Total Disbursements	<u>3,997,106</u>	<u>3,997,106</u>	<u>3,101,404</u>	<u>895,702</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,481,306)</u>	<u>(1,481,306)</u>	<u>(966,926)</u>	<u>514,380</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>881,306</u>	<u>881,306</u>	<u>1,070,000</u>	<u>188,694</u>
Total Other Adjustments to Cash (Uses)	<u>881,306</u>	<u>881,306</u>	<u>1,070,000</u>	<u>188,694</u>
Net Change in Fund Balance	(600,000)	(600,000)	103,074	703,074
Fund Balance - Beginning	<u>600,000</u>	<u>600,000</u>	<u>594,161</u>	<u>(5,839)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 697,235</u>	<u>\$ 697,235</u>

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

	CONTINGENCY FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 30,287	\$ 30,287	\$ 30,288	\$ 1
Interest	9,000	9,000	9,429	429
Total Receipts	<u>39,287</u>	<u>39,287</u>	<u>39,717</u>	<u>430</u>
DISBURSEMENTS				
Administration	<u>2,547,287</u>	<u>2,547,287</u>		<u>2,547,287</u>
Total Disbursements	<u>2,547,287</u>	<u>2,547,287</u>		<u>2,547,287</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,508,000)</u>	<u>(2,508,000)</u>	<u>39,717</u>	<u>2,547,717</u>
Net Change in Fund Balance	(2,508,000)	(2,508,000)	39,717	2,547,717
Fund Balance - Beginning	<u>2,508,000</u>	<u>2,508,000</u>	<u>2,584,114</u>	<u>76,114</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,623,831</u>	<u>\$ 2,623,831</u>

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

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 1,000,000	\$ 1,000,000	\$	\$ (1,000,000)
Total Receipts	<u>1,000,000</u>	<u>1,000,000</u>		<u>(1,000,000)</u>
DISBURSEMENTS				
Protection to Persons and Property	<u>1,000,000</u>	<u>1,000,000</u>		<u>1,000,000</u>
Total Disbursements	<u>1,000,000</u>	<u>1,000,000</u>		<u>1,000,000</u>
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

HOPKINS COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2017

Note 1. Budgetary Information

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

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

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

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

For The Year Ended June 30, 2017

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HOPKINS COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (*Restated)	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 1,596,564	\$	\$	\$ 1,596,564
Construction In Progress*	1,479,041			1,479,041
Buildings*	37,181,521	145,086		37,326,607
Jail Commissary	199,414	125,630	54,133	270,911
Vehicles	2,630,508	364,427		2,994,935
Equipment	5,551,798	391,212	9,442	5,933,568
Infrastructure*	12,501,950			12,501,950
Total Capital Assets	<u>\$ 61,140,796</u>	<u>\$ 1,026,355</u>	<u>\$ 63,575</u>	<u>\$ 62,103,576</u>

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

June 30, 2017

Note 1. Capital Assets

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

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	12,500	10-60
Buildings	25,000	10-75
Buildings and Improvements	25,000	10-75
Furniture and Fixtures	20,000	5-25
Machinery and Equipment	20,000	5-25
Vehicles	20,000	3

Note 2. Restatement of Capital Assets Beginning Balance

The beginning balances of the Infrastructure and Construction In Progress categories were each adjusted \$1 for rounding. Additionally, the Construction In Progress beginning balance was decreased by \$1,101,550 and Buildings beginning balance was increased \$1,101,550 for a project completed in the prior year, but not properly transferred from Construction In Progress to Buildings.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donald E. Carroll, Hopkins County Judge/Executive
Members of the Hopkins County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Hopkins County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Hopkins County Fiscal Court's financial statement and have issued our report thereon dated April 16, 2018.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002 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 Hopkins County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-002 and 2017-003.

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 16, 2018

**HOPKINS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

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HOPKINS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended June 30, 2017

FINANCIAL STATEMENTS FINDINGS:

2017-001 The Hopkins County Fiscal Court Off-Site Locations Lack Adequate Controls Over Receipts And Deposits Are Not Made Daily

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The Hopkins County Fiscal Court sanitation department and occupational tax collections lack adequate controls over receipts. Testing of decentralized receipts yielded the following issues and exceptions.

Sanitation department:

- One employee gathers receipts, batches receipts, and locks batched receipts in a lockbox.
- Receipts for the sanitation department are not deposited daily. They are deposited monthly; however, during testing, auditors noted one deposit included three months.
- Customers were allowed to charge dumping fees.
- There is no documentation maintained of when a customer paid accounts receivable or of the total receivables due to the fiscal court. Receipts issued to customers were marked charge and labeled with a description of what was being dumped.

Occupational and net profit tax:

- The tax administrator collects receipts, enters them into an excel spreadsheet, and batches receipts to be deposited by the county treasurer. However, there is no documented reconciliation performed by different employees to ensure the excel spreadsheet is accurate.
- The deposits are batched for deposit as they are processed, but the batches are not deposited daily.
- Delinquents are not being recorded in a timely manner and delinquent fees according to the ordinance are not being assessed. Companies that do not pay on or before the due date are marked delinquent in excel when the occupational tax administrator has time, not as soon as they become delinquent.
- One taxpayer paid estimated taxes of \$1,000 during the tax year and submitted their tax return on October 16, 2017, showing a \$1,000 overpayment. On January 3, 2018, the occupational tax administrator was marking companies as delinquent and noticed that the overpayment had not been recorded or paid back to the taxpayer.
- From the sample of ten companies tested, the auditor determined the county was underpaid \$1,426, due to taxpayers not sending in correct tax amounts.
- One of the ten net profit returns tested did not file a net profit tax return.
- One of the ten net profit returns tested was stamped received after it had been deposited.

According to the county treasurer, this lack of internal controls is a result of a limited budget, which restricts the number of qualified employees the fiscal court can hire for accounting functions. Also, the occupational tax administrator stated that companies that send in incorrect tax amounts do so because their system prints the checks and will not allow them to change what is printed. The treasurer also stated that they do not collect fees on occupational tax because the ordinance was worded incorrectly and she believes that she has the final say on whether or not to assess the fees.

Lack of proper internal controls and failure to make daily deposits create the opportunity for undetected misappropriation of assets and inaccurate financial reporting.

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

FINANCIAL STATEMENTS FINDINGS: (Continued)

2017-001 The Hopkins County Fiscal Court Off-Site Locations Lack Adequate Controls Over Receipts And Deposits Are Not Made Daily (Continued)

Good internal controls dictate that duties over the various accounting functions such as preparation of deposits, checkout sheet preparation, and collection of cash should be segregated in order to decrease the risk of undetected misappropriation of assets and inaccurate financial reporting. Good internal controls also dictate that accurate and sufficient records be maintained in order to ensure all fees collected are deposited by the county treasurer. This would include adequate records to support all accounts receivable transactions. Also, per KRS 68.210, the state local finance officer shall prescribe minimum accounting standards, which include performing daily check-out procedures and making daily deposits intact to a federally insured banking institution. Finally, regarding delinquent taxpayers, the occupational tax ordinance states, “[i]n addition to the penalties prescribed in this section, any business entity or employer shall pay, as part of the fee, an amount equal to twelve percent (12%) per annum simple interest on the fee shown due, but not previously paid, from the time the fee was due until the fee is paid to the county. A fraction of a month is counted as an entire month.”

We recommend the sanitation department and the occupational tax administrator implement internal controls over daily transactions and fees collected. We also recommend the occupational tax administrator begin making deposits daily, marking delinquents timely, and assessing the correct fees according to the ordinance in place. Furthermore, we recommend the county contact the county attorney to discuss whether or not to pursue companies when incorrect amounts are paid. Additionally, the fiscal court should institute policies, procedures, and internal controls over any type of accounts receivable.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Due to the timing of the previous audit much of these issues could not be corrected until the current year and have been addressed. The Treasurer does review the Excel spreadsheet that is kept for the occupational and net profit taxes. However, this is not the official record of taxes collected. That is kept on the financial software that the County uses. The Treasurer posts the revenue received to this software and it is reconciled to the spreadsheet by the Tax Administrator. The Tax Administrator does not have the time for tax collection and enforcement and there is no way to determine if there may be businesses out in the County that may not have gotten a business license. The Fiscal Court feels that it is not cost effective to hire additional staff and would be a waste of taxpayer money.

2017-002 The Hopkins County Fiscal Court’s Capital Asset Schedule Was Inaccurate

During the fiscal year ending June 30, 2017, the fiscal court purchased five vehicles for the sheriff’s office and three pieces of equipment for the road department totaling \$514,535 that were not added to the county’s capital asset schedule. According to the treasurer, this error was due to an oversight when preparing the capital asset schedule. Good internal controls dictate oversight of the record keeping process for capital assets. Additionally, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property placement. Due to the county’s lack of internal controls, the county’s capital assets were reported inaccurately. We recommend the fiscal court maintain up to date capital asset records and ensure that these records are accurate.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The Treasurer was unsure of how some of the assets should be listed on the Capital Asset Schedule and left these assets off until she could consult with Auditors.

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

FINANCIAL STATEMENTS FINDINGS: (Continued)

2017-003 The Hopkins County Fiscal Court Failed To Follow Bidding Requirements For Drainage Pipe
And Stone

The fiscal court failed to follow bidding requirements by accepting all bids for drainage pipe and stone. The fiscal court was unaware that the fiscal court could not accept all bids for drainage pipe and stone. By accepting all bids for drainage pipe and stone, the fiscal court is not compliance with KRS 178.140. KRS 178.140(2) states, “[t]he contract shall be awarded to the lowest and best bidder, who shall furnish satisfactory security in an amount equal to the amount of the contract in question, to be approved by the county judge/executive of the county.” We recommend the fiscal court advertise for bids and award bids in accordance with KRS 178.140. If there are geographical restrictions, that information should be included in the bid advertisement.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The Fiscal Court did follow bidding requirements, but failed to adequately explain why it chose to accept all bidders. Some bidders bid lower on one item and higher on another, so the choice was to accept all bidders and pay the lower price on each item. The explanation will be may clear on future bidding.

Auditor’s Reply: KRS 178.140(2) states, “[t]he contract shall be awarded to the lowest and best bidder[.]” There is no statutory authority to accept multiple bids or partial bids.

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

HOPKINS COUNTY FISCAL COURT

For The Year Ended June 30, 2017

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CERTIFICATION OF COMPLIANCE

ASSISTANCE AND DEVELOPMENT PROGRAM

HOPKINS COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

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

A handwritten signature in blue ink, appearing to read "Alfred E. Cowell", is written over a horizontal line.

County Judge/Executive

A handwritten signature in blue ink, appearing to read "Cindy A. Jones", is written over a horizontal line.

County Treasurer