

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

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

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

Independent Auditors' Report

Report on the Financial Statement

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

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Opinion on Regulatory Basis of Accounting

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

Other Matters

Supplementary Information

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

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

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2019 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 discuss the following report findings:

- 2018-001 Hopkins County Fiscal Court's Capital Asset Schedule Was Inaccurate
- 2018-002 Hopkins County Fiscal Court's Off-Site Locations Lack Adequate Controls Over Receipts And Deposits Are Not Being Made Daily
- 2018-003 The County Judge/Executive And County Jailer's Were Not Paid According To Statutes

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, Kentucky

June 6, 2019

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

Donald Carroll	County Judge/Executive
Karol Welch	Magistrate
Bill Rudd	Magistrate
Vicki Thomison	Magistrate
Jack Whitfield, Jr.	Magistrate
Billy Parrish	Magistrate
Charlie Beshears	Magistrate
Hannah Myers	Magistrate

Other Elected Officials:

Byron Hobgood	County Attorney
Joe Blue	Former Jailer
Mike Lewis	Current 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, 2018

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

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 10,405,373	\$	\$
Licenses and Permits	79,843		
Intergovernmental	3,066,903	2,534,478	3,268,201
Charges for Services	448		235,815
Miscellaneous	205,074	40,884	177,027
Interest	28,182	3,308	3,358
Total Receipts	<u>13,785,823</u>	<u>2,578,670</u>	<u>3,684,401</u>
DISBURSEMENTS			
General Government	5,033,807		
Protection to Persons and Property	335,717		4,053,336
General Health and Sanitation	400		
Social Services			
Recreation and Culture	22,695		
Roads		2,377,293	
Road Facilities			
Debt Service		141,151	963,407
Capital Projects	8,386	948,643	
Administration	1,877,313	571,978	990,602
Total Disbursements	<u>7,278,318</u>	<u>4,039,065</u>	<u>6,007,345</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>6,507,505</u>	<u>(1,460,395)</u>	<u>(2,322,944)</u>
Other Adjustments to Cash (Uses)			
Bond Proceeds			
Transfers from Other Funds		1,400,000	2,325,000
Transfers to Other Funds	(5,925,000)		
Total Other Adjustments to Cash (Uses)	<u>(5,925,000)</u>	<u>1,400,000</u>	<u>2,325,000</u>
Net Change in Fund Balance	582,505	(60,395)	2,056
Fund Balance - Beginning	2,657,604	494,843	648,961
Fund Balance - Ending	<u>\$ 3,240,109</u>	<u>\$ 434,448</u>	<u>\$ 651,017</u>
Composition of Fund Balance			
Bank Balance	\$ 3,240,109	\$ 434,448	\$ 651,017
Plus: Deposits In Transit			
Less: Outstanding Checks			
Fund Balance - Ending	<u>\$ 3,240,109</u>	<u>\$ 434,448</u>	<u>\$ 651,017</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, 2018
(Continued)

Budgeted Funds			Unbudgeted Funds		
Local Government Economic Assistance Fund	Contingency Fund	Local Government Economic Development Fund	Public Facilities Construction Corporation Fund	Jail Commissary Fund	Total Funds
\$	\$	\$	\$	\$	\$ 10,405,373
4,900					84,743
1,444,738	29,994		1,581,901	17,765	11,943,980
464,714				331,430	1,032,407
79,046					502,031
2,300	18,215		1,395	639	57,397
1,995,698	48,209		1,583,296	349,834	24,025,931
485,950					5,519,757
160,000					4,549,053
1,582,519					1,582,919
118,605					118,605
928,220				277,043	1,227,958
					2,377,293
389,155					389,155
			1,867,754		2,972,312
					957,029
368,304			500		3,808,697
4,032,753			1,868,254	277,043	23,502,778
(2,037,055)	48,209		(284,958)	72,791	523,153
			5,928,288		5,928,288
2,200,000					5,925,000
					(5,925,000)
2,200,000			5,928,288		5,928,288
162,945	48,209		5,643,330	72,791	6,451,441
697,235	2,623,831		146,972	174,076	7,443,522
\$ 860,180	\$ 2,672,040	\$ 0	\$ 5,790,302	\$ 246,867	\$ 13,894,963
\$ 860,180	\$ 2,672,040	\$	\$ 5,790,302	\$ 251,379	\$ 13,899,475
				16,332	16,332
				(20,844)	(20,844)
\$ 860,180	\$ 2,672,040	\$ 0	\$ 5,790,302	\$ 246,867	\$ 13,894,963

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

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TO THE FINANCIAL STATEMENT**

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**HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

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, 2018
(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 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 proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

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.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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 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

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, 2018
(Continued)

Note 2. Deposits

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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2018.

	General Fund	Total Transfers In
Road Fund	\$ 1,400,000	\$ 1,400,000
Jail Fund	2,325,000	2,325,000
LGEA Fund	2,200,000	2,200,000
Total Transfers Out	<u>\$ 5,925,000</u>	<u>\$ 5,925,000</u>

Reason for transfers:

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

Note 4. Receivables

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, 2018, principal balance due was \$400,000.

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

Note 5. Long-term Debt

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

On June 1, 2010, the Hopkins County Public Properties Corporation issued \$19,410,000 of First Mortgage Revenue Bonds (Judicial Center Project), Series 2010, for the purpose of acquiring, constructing, and equipping a new Judicial Center. The bonds will mature on June 30, 2027. Interest is payable each June 1 and December 1. As of June 30, 2018, bonds outstanding were \$11,410,000. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Principal	Interest
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	1,260,000	252,913
2024-2027	5,510,000	544,350
Totals	<u>\$ 11,410,000</u>	<u>\$ 2,205,738</u>

B. Mortgage Revenue Refunding Bonds (Judicial Center Project), Series 2017

On July 27, 2017, the Hopkins County Public Properties Corporation issued \$5,928,288 of Mortgage Revenue Refunding Bonds (Judicial Center Project), Series 2017, for the purpose of advance refunding the 2010 Bonds maturing on or after June 1, 2024. The bonds will mature on June 1, 2027. Interest is payable each June 1 and December 1. As of June 30, 2018, bonds outstanding were \$5,928,288. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Principal	Interest
2019	\$	\$ 133,886
2020		133,886
2021	63,000	133,886
2022	65,500	132,469
2023	69,811	130,995
2024-2027	5,729,977	325,871
Totals	<u>\$ 5,928,288</u>	<u>\$ 990,993</u>

C. 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.

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

Note 5. Long-term Debt (Continued)

C. General Obligation Lease, Series 2014 (Continued)

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, 2018, bonds outstanding were \$1,763,943.

Fiscal Year Ended June 30,	Principal	Interest
2019	\$ 875,000	\$ 26,298
2020	888,943	13,261
Totals	<u>\$ 1,763,943</u>	<u>\$ 39,559</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, 2018, was \$361,419. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30,	Principal	Interest
2019	\$ 47,993	\$ 10,865
2020	49,157	9,312
2021	50,350	7,721
2022	51,573	6,092
2023-2025	<u>162,346</u>	<u>8,102</u>
Totals	<u>\$ 361,419</u>	<u>\$ 42,092</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, 2018, was \$88,737. Annual debt service requirements to maturity are as follows:

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

Note 5. Long-term Debt (Continued)

E. Caterpillar On-Highway Trucks (Continued)

Fiscal Year Ended June 30,	Principal	Interest
2019	\$ 75,900	\$ 1,347
2020	12,837	40
Totals	<u>\$ 88,737</u>	<u>\$ 1,387</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 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, 2018, was \$69,705. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30,	Principal	Interest
2019	<u>\$ 69,705</u>	<u>\$ 2,163</u>
Totals	<u>\$ 69,705</u>	<u>\$ 2,163</u>

G. Road Department Vehicles

During fiscal year 2018, the fiscal court entered into a lease agreement with Enterprise Fleet Management in the sum of \$249,046. The financing obligation was for the acquisition of road department vehicles. The term of the lease is for 60 months. The balance of the financing obligation as of June 30, 2018, was \$209,817. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30,	Principal	Interest
2019	\$ 44,464	\$ 9,508
2020	44,464	9,508
2021	44,464	9,508
2022	44,464	9,508
2023	31,961	1,585
Totals	<u>\$ 209,817</u>	<u>\$ 39,617</u>

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

Note 5. Long-term Debt (Continued)

H. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 12,485,000	\$ 5,928,288	\$1,075,000	\$17,338,288	\$ 1,105,000
Financing Obligations	3,358,616	249,046	1,114,043	2,493,619	1,113,062
Total Long-term Debt	<u>\$ 15,843,616</u>	<u>\$ 6,177,334</u>	<u>\$ 2,189,043</u>	<u>\$19,831,907</u>	<u>\$ 2,218,062</u>

Note 6. Commitment Debt

A. Ambulance Service Contract

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

On January 1, 2012, the Hopkins County Fiscal Court entered into a lease and contract with MCAS. The county agreed to furnish to MCAS, for the sum of one dollar per year, the existing inventory of fully serviceable ambulances. The term of the agreement is for a period of four years unless sooner cancelled or terminated as provided in the contract. This agreement shall be automatically extended for like periods of one year each, unless either party gives the other party 30 days written notice prior to the expiration of the current term. MCAS agreed to supply suitable and necessary ambulance service to the residents of Dawson Springs, Kentucky, at its Dawson Springs location and the remainder of Hopkins County, Kentucky through its Madisonville location. The county agreed to provide financial support, as budgeted by the Hopkins County Fiscal Court, which budget shall be no less than current amount of \$150,000 annually, which shall be paid to MCAS in cash payments, not less frequently 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, 2018, both parties were in compliance with this agreement.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(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 American Recovery and Reinvestment Act (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 2016 was \$1,337,381, FY 2017 was \$1,446,282, and FY 2018 was \$1,386,166.

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 19.18 percent.

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

Note 7. Employee Retirement System (Continued)

Hazardous (Continued)

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 31.55 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, 2018
(Continued)

Note 7. Employee Retirement System (Continued)

Health Insurance Coverage (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, 2018
(Continued)

Note 10. Insurance

For the fiscal year ended June 30, 2018, 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 \$11,880 to this supply company in fiscal year ending June 30, 2018.

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, 2018, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 9,611,350	\$ 9,611,350	\$ 10,405,373	\$ 794,023
Licenses and Permits	83,500	83,500	79,843	(3,657)
Intergovernmental	3,402,985	3,402,985	3,066,903	(336,082)
Charges for Services	500	500	448	(52)
Miscellaneous	178,025	178,025	205,074	27,049
Interest	12,000	12,000	28,182	16,182
Total Receipts	13,288,360	13,288,360	13,785,823	497,463
DISBURSEMENTS				
General Government	5,675,216	5,761,516	5,033,807	727,709
Protection to Persons and Property	371,175	371,175	335,717	35,458
General Health and Sanitation	400	400	400	
Recreation and Culture	70,000	70,000	22,695	47,305
Capital Projects	20,000	20,000	8,386	11,614
Administration	2,567,083	2,480,783	1,877,313	603,470
Total Disbursements	8,703,874	8,703,874	7,278,318	1,425,556
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	4,584,486	4,584,486	6,507,505	1,923,019
Other Adjustments to Cash (Uses)				
Lease Proceeds	225,000	225,000		(225,000)
Transfers to Other Funds	(6,809,486)	(6,809,486)	(5,925,000)	884,486
Total Other Adjustments to Cash (Uses)	(6,584,486)	(6,584,486)	(5,925,000)	659,486
Net Change in Fund Balance	(2,000,000)	(2,000,000)	582,505	2,582,505
Fund Balance - Beginning	2,000,000	2,000,000	2,657,604	657,604
Fund Balance - Ending	\$ 0	\$ 0	\$ 3,240,109	\$ 3,240,109

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

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,847,574	\$ 2,847,574	\$ 2,534,478	\$ (313,096)
Miscellaneous	1,000	1,000	40,884	39,884
Interest	1,500	1,500	3,308	1,808
Total Receipts	2,850,074	2,850,074	2,578,670	(271,404)
DISBURSEMENTS				
Roads	3,006,800	3,047,950	2,377,293	670,657
Debt Service	173,550	173,550	141,151	32,399
Capital Projects	1,415,000	1,471,000	948,643	522,357
Administration	791,300	694,150	571,978	122,172
Total Disbursements	5,386,650	5,386,650	4,039,065	1,347,585
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(2,536,576)	(2,536,576)	(1,460,395)	1,076,181
Other Adjustments to Cash (Uses)				
Transfers from Other Funds	2,136,576	2,136,576	1,400,000	(736,576)
Total Other Adjustments to Cash (Uses)	2,136,576	2,136,576	1,400,000	(736,576)
Net Change in Fund Balance	(400,000)	(400,000)	(60,395)	339,605
Fund Balance - Beginning	400,000	400,000	494,843	94,843
Fund Balance - Ending	\$ 0	\$ 0	\$ 434,448	\$ 434,448

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

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 3,163,800	\$ 3,163,800	\$ 3,268,201	\$ 104,401
Charges for Services	195,100	195,100	235,815	40,715
Miscellaneous	133,300	133,300	177,027	43,727
Interest	1,000	1,000	3,358	2,358
Total Receipts	3,493,200	3,493,200	3,684,401	191,201
DISBURSEMENTS				
Protection to Persons and Property	4,229,285	4,289,060	4,053,336	235,724
Debt Service	963,500	963,500	963,407	93
Administration	1,195,500	1,135,725	990,602	145,123
Total Disbursements	6,388,285	6,388,285	6,007,345	380,940
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(2,895,085)	(2,895,085)	(2,322,944)	572,141
Other Adjustments to Cash (Uses)				
Transfers from Other Funds	2,295,085	2,295,085	2,325,000	29,915
Total Other Adjustments to Cash (Uses)	2,295,085	2,295,085	2,325,000	29,915
Net Change in Fund Balance	(600,000)	(600,000)	2,056	602,056
Fund Balance - Beginning	600,000	600,000	648,961	48,961
Fund Balance - Ending	\$ 0	\$ 0	\$ 651,017	\$ 651,017

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
License and Permits	\$ 3,000	\$ 3,000	\$ 4,900	\$ 1,900
Intergovernmental	2,755,000	2,755,000	1,444,738	(1,310,262)
Charges for Services	259,000	259,000	464,714	205,714
Miscellaneous Revenues	37,800	37,800	79,046	41,246
Interest	1,000	1,000	2,300	1,300
Total Receipts	3,055,800	3,055,800	1,995,698	(1,060,102)
DISBURSEMENTS				
General Government	934,160	859,959	485,950	374,009
Protection to Persons and Property	160,000	160,000	160,000	
General Health and Sanitation	1,680,321	1,803,472	1,582,519	220,953
Social Services	127,344	127,344	118,605	8,739
Recreation and Culture	848,700	949,250	928,220	21,030
Road Facilities	390,000	390,000	389,155	845
Capital Projects	100,000	100,000		100,000
Administration	543,100	393,600	368,304	25,296
Total Disbursements	4,783,625	4,783,625	4,032,753	750,872
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,727,825)	(1,727,825)	(2,037,055)	(309,230)
Other Adjustments to Cash (Uses)				
Transfers from Other Funds	1,127,825	1,127,825	2,200,000	1,072,175
Total Other Adjustments to Cash (Uses)	1,127,825	1,127,825	2,200,000	1,072,175
Net Change in Fund Balance	(600,000)	(600,000)	162,945	762,945
Fund Balance - Beginning	600,000	600,000	697,235	97,235
Fund Balance - Ending	\$ 0	\$ 0	\$ 860,180	\$ 860,180

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

CONTINGENCY FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 30,000	\$ 30,000	\$ 29,994	\$ (6)
Interest	9,000	9,000	18,215	9,215
Total Receipts	39,000	39,000	48,209	9,209
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	39,000	39,000	48,209	9,209
Other Adjustments to Cash (Uses)				
Transfers from Other Funds	1,250,000	1,250,000		(1,250,000)
Total Other Adjustments to Cash (Uses)	1,250,000	1,250,000		(1,250,000)
Net Change in Fund Balance	1,289,000	1,289,000	48,209	(1,240,791)
Fund Balance - Beginning	(1,289,000)	(1,289,000)	2,623,831	3,912,831
Fund Balance - Ending	\$ 0	\$ 0	\$ 2,672,040	\$ 2,672,040

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

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 100,000	\$ 100,000	\$	\$ (100,000)
Total Receipts	100,000	100,000		(100,000)
DISBURSEMENTS				
Protection to Persons and Property	100,000	100,000		100,000
Total Disbursements	100,000	100,000		100,000
Net Change in Fund Balance	0	0	0	0
Fund Balance - Beginning	0	0	0	0
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

**HOPKINS COUNTY
NOTE TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES**

June 30, 2018

Note 1. Budgetary Information

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

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

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

HOPKINS COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

HOPKINS COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 1,596,564	\$	\$	\$ 1,596,564
Construction in Progress	1,479,041	143,500		1,622,541
Buildings and Building Improvements	37,326,608	152,893	501	37,479,000
Machinery and Equipment	5,933,569	137,800	254,854	5,816,515
Vehicles	2,994,934	488,720	167,584	3,316,070
Vehicles - Jail Commissary	270,911	118,750		389,661
Infrastructure	12,501,950	1,010,004		13,511,954
 Total Capital Assets	 <u>\$ 62,103,577</u>	 <u>\$ 2,051,667</u>	 <u>\$ 422,939</u>	 <u>\$63,732,305</u>

HOPKINS COUNTY
NOTE TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2018

Note 1. Capital Assets

Capital assets, which include land and land improvements, construction in progress, buildings and building improvements, furniture and fixtures, machinery and equipment, vehicles, vehicles-jail commissary and infrastructure assets that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Furniture and Fixtures	\$ 20,000	5-25
Machinery and Equipment	\$ 20,000	5-25
Vehicles	\$ 20,000	3
Infrastructure	\$ 20,000	10-50

The accompanying notes are an integral part of this schedule.

**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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The Honorable Donald 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 Auditors' Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Hopkins County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Hopkins County Fiscal Court's financial statement and have issued our report thereon dated June 6, 2019.

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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies as 2018-001 and 2018-002.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Hopkins County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2018-003.

Views Of Responsible Officials 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 county'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 county's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, Kentucky

June 6, 2019

HOPKINS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended June 30, 2018

**HOPKINS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 Hopkins County Fiscal Court's Capital Asset Schedule Was Inaccurate

During fiscal year ending June 30, 2018, Hopkins County Fiscal Court purchased multiple vehicles for the road department 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. The effect of this lack of adequate internal controls has led to improper reporting of the county's capital assets. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the Instructional Guide for 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 replacement. We recommend that the fiscal court maintain up to date capital asset records and ensure that these records are accurate.

County Judge/Executive's Response: The Treasurer was unsure of how some of the assets should have been listed on the Capital Asset Schedule and left assets off until she was consulted by auditors.

2018-002 Hopkins County Fiscal Court's Off-Site Locations Lack Adequate Controls Over Receipts And Deposits Are Not Being Made Daily

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:

- Receipts for the sanitation department are not deposited daily, they are deposited at random times throughout the month.
- There are alleged sanitation receipts unaccounted for that are currently being investigated by Kentucky State Police.

Occupational Tax;

- 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 spread sheet is accurate.
- The deposits are being batched for deposit as they are processed, but the batches are not being deposited daily.

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. Without the proper internal controls and deposits being made daily the fiscal court creates the opportunity for misappropriation of assets and inaccurate financial reporting to occur and go unnoticed. 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 lower the risk of misappropriation of assets and inaccurate financial reporting occurring and going unnoticed. 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. Also, per KRS 68.210, the State Local Finance Officer shall prescribe minimum accounting standards, including performing daily check-out procedures and making daily deposits

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 Hopkins County Fiscal Court's Off-Site Locations Lack Adequate Controls Over Receipts And Deposits Are Not Being Made Daily (Continued)

intact to a federally insured banking institution. Finally, regarding delinquent taxpayers the occupational tax ordinance states, "In 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 that the sanitation department and the Occupational Tax Administrator implement internal controls over daily transactions and fees collected. We also recommend that the Occupational Tax Administrator begin making deposits daily, marking delinquents in a timely manner, and begin assessing the correct fees according to the ordinance in place. Lastly, we recommend that the county contact the County Attorney to discuss whether or not to pursue companies when incorrect amounts are being paid.

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.

2018-003 The County Judge/Executive And County Jailer's Were Not Paid According To Statutes

The County Judge/Executive was underpaid \$750.00 and the current County Jailer was underpaid \$162.01. The County allows the judge and jailer the use of a county owned vehicle and they pay the judge and jailer a \$750.00 allowance for mileage. The county was including this into the maximum allowable salary of the judge and jailer instead of adding it to the maximum allowable salary. The former County Jailer was overpaid \$4,405.20 for unused vacation time that was earned while he was a Deputy Jailer.

The County Treasurer was unaware that the mileage reimbursement should be treated like the training incentive and added to the maximum allowable salary set by the DLG. The fiscal court has always paid unused vacation in this manner.

Having a lack of internal controls over the county official's payroll could cause the officials to be over/under paid.

KRS 67.705(2) states in part, "the county judge/executive shall receive an annual salary pursuant to the salary schedule in KRS 64.5274, except in counties that contain an urban-county form of government or a consolidated local government"

We recommend that the fiscal court pay the judge \$750.00 and the jailer \$162.01, which are the amounts that they were underpaid and to put controls into place that will prevent the judge and jailer from being underpaid in the future. Additionally, we recommend that the fiscal court request the former jailer to reimburse the county \$4,405.20 that he was overpaid. Furthermore, we recommend that the fiscal court put policies and procedures in place to ensure all elected officials are paid what they are entitled to.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The County Judge/Executive And County Jailer's Were Not Paid According To Statutes (Continued)

County Judge/Executive's Response: The County Judge/Executive and Jailer were not underpaid or overpaid as stated in the previous 2018-011 comment. Even though the description says mileage it is not for miles driven. The \$750 and \$162 referred to, are simply increases to the taxable amount on their W-2's to require them to pay taxes on the benefit of using a County vehicle. No money is paid and isn't supposed to be paid. The County is complying with federal law by manually adding this to the W-2. It is done the same way for all County employees that drive a County owned vehicle and has been for many years. Nothing is paid to these employees because they already have the benefit of driving the vehicle. This procedure has been reviewed by many auditors over the years and it was found that the County was following correct procedure. The County Treasurer was fully aware of how this should be treated and the court will not be paying the Judge/Executive and Jailer. Also, the County already has procedures in place to make sure the proper amount is paid to all employees.

The method of paying accrued vacation to an employee when the employee becomes an elected official was changed in 2016 and put in our personnel policy. We now pay accrued vacation at the time the employee becomes an elected official, so the employee is paid at the rate they earned the vacation time. Since the procedure in the past was to pay accrued vacation time when the elected official left, the court will not be asking for the money back from the jailer.

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

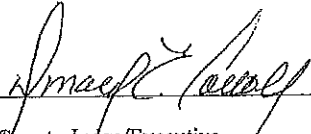
HOPKINS COUNTY FISCAL COURT

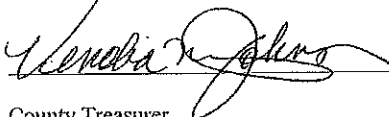
For The Year Ended June 30, 2018

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM
HOPKINS COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2018

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.



County Judge/Executive

County Treasurer