

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

**For The Year Ended
June 30, 2019**

**Roy W Hunter, CPA, PLLC
1890 Star Shoot Parkway
Suite 170-147
Lexington, KY 40509**

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
HENDERSON COUNTY OFFICIALS	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	6
NOTES TO FINANCIAL STATEMENT	10
BUDGETARY COMPARISON SCHEDULES.....	27
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES	34
SCHEDULE OF CAPITAL ASSETS.....	37
NOTES TO OTHER INFORMATION - REGULATORY BASIS SCHEDULE OF CAPITAL ASSETS.....	38
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>	41
SCHEDULE OF FINDINGS AND RESPONSES.....	45
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	

THIS PAGE LEFT BLANK INTENTIONALLY

To the People of Kentucky
The Honorable Andy G. Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Brad Schneider, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Henderson County Fiscal Court, for the year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the Henderson 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
The Honorable Andy G. Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Brad Schneider, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

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 Henderson 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 Henderson County Fiscal Court as of June 30, 2019, 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 Henderson County Fiscal Court as of June 30, 2019, 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 and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Henderson County Fiscal Court. The Budgetary Comparison Schedules (supplementary information) and Schedule of Capital Assets (other information) 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 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 are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky
The Honorable Andy G. Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Brad Schneider, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

Other Matters

Supplementary and Other Information (Continued)

The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

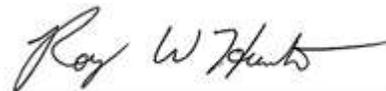
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019, on our consideration of the Henderson 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 Henderson 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:

- 2019-001 The Henderson County Fiscal Court's Payroll Revolving Account Was Not Properly Reconciled
- 2019-002 The Henderson County Fiscal Court Lacks Adequate Controls Over Their Bid Process And Was Not In Compliance With Bid Laws

Respectfully submitted,



Roy W. Hunter, CPA, PLLC
Lexington, Kentucky

November 26, 2019

HENDERSON COUNTY OFFICIALS

For The Year Ended June 30, 2019

Fiscal Court Members:

Brad Schneider	County Judge/Executive
Keith Berry	Magistrate District 1
Beth Moran	Magistrate District 2
Tim Southard	Magistrate District 3
Billy "Butch" Puttman	Magistrate District 4
Charles McCollom	Magistrate District 5

Other Elected Officials:

Steve Gold	County Attorney
Amy Brady	Jailer
Renesa Abner	County Clerk
Herbert McKee, Jr.	Circuit Court Clerk
Ed Brady	Sheriff
Andrew Powell	Property Valuation Administrator
Bruce Farmer	Coroner

Appointed Personnel:

Brenda Duncan-Rider	County Treasurer
William Hubiak	County Engineer

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

For The Year Ended June 30, 2019

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

For The Year Ended June 30, 2019

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 10,371,335	\$	\$
In Lieu Tax Payments	374,579		
Excess Fees	24,623		
Licenses and Permits	128,513		
Intergovernmental	3,259,518	2,148,789	9,323,416
Charges for Services		20,877	125,035
Miscellaneous	266,806	101,013	515,144
Interest	82,588	5,787	98,546
Total Receipts	<u>14,507,962</u>	<u>2,276,466</u>	<u>10,062,141</u>
DISBURSEMENTS			
General Government	7,032,582		
Protection to Persons and Property	474,700		5,864,118
General Health and Sanitation		181,576	
Social Services			
Recreation and Culture	3,211	456,415	
Roads		3,235,931	
Airports			
Bus Services			
Debt Service	283,800		663,400
Capital Projects	414,966		244,823
Administration	1,537,862	761,728	1,727,375
Total Disbursements	<u>9,747,121</u>	<u>4,635,650</u>	<u>8,499,716</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>4,760,841</u>	<u>(2,359,184)</u>	<u>1,562,425</u>
Other Adjustments to Cash (Uses)			
Change in Payroll Revolving Account	505,814		
General Obligation Refunding Bonds, Series 2012 Defeasance - Placed in Escrow			(947,106)
Transfers From Other Funds	150,918	2,800,000	213,587
Transfers To Other Funds	(3,126,767)		(150,918)
Total Other Adjustments to Cash (Uses)	<u>(2,470,035)</u>	<u>2,800,000</u>	<u>(884,437)</u>
Net Change in Fund Balance	2,290,806	440,816	677,988
Fund Balance - Beginning (Restated)	<u>10,244,990</u>	<u>714,359</u>	<u>6,807,791</u>
Fund Balance - Ending	<u>\$ 12,535,796</u>	<u>\$ 1,155,175</u>	<u>\$ 7,485,779</u>
Composition of Fund Balance			
Bank Balance	\$ 11,388,823	\$ 1,492,391	\$ 7,276,708
Payroll Revolving Account Reconciled Balance	72,145		
Less: Outstanding Checks	(302,917)	(337,216)	(90,929)
Certificates of Deposit	1,377,745		300,000
Fund Balance - Ending	<u>\$ 12,535,796</u>	<u>\$ 1,155,175</u>	<u>\$ 7,485,779</u>

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

HENDERSON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2019
(Continued)

Local Government Economic Assistance Fund	Budgeted Funds			Unbudgeted Funds	
	State Grants Fund	Federal Grants Fund	Economic Development Fund	Public Properties Corporation Fund	Jail Commissary Fund
\$	\$	\$	\$	\$	\$
124,930					
422,824	263,151	115,741		724,916	
179	2,874				1,559,851
87			134		1,537
<u>548,020</u>	<u>266,025</u>	<u>115,741</u>	<u>134</u>	<u>724,916</u>	<u>1,561,388</u>
			66,000		
285,584	13,200				
390,735	108,673				
171,472	200,000				
9,640					1,434,001
30,063					
		131,550			
23,911				724,916	
<u>911,405</u>	<u>321,873</u>	<u>131,550</u>	<u>66,000</u>	<u>724,916</u>	<u>1,434,001</u>
<u>(363,385)</u>	<u>(55,848)</u>	<u>(15,809)</u>	<u>(65,866)</u>		<u>127,387</u>
250,000		15,809	60,000		
	(212,629)				
<u>250,000</u>	<u>(212,629)</u>	<u>15,809</u>	<u>60,000</u>		
(113,385)	(268,477)		(5,866)		127,387
158,806	638,340		14,950		838,895
<u>\$ 45,421</u>	<u>\$ 369,863</u>	<u>\$ 0</u>	<u>\$ 9,084</u>	<u>\$ 0</u>	<u>\$ 966,282</u>
\$ 65,734	\$ 382,013	\$	\$ 9,084	\$	\$ 967,051
(20,313)	(12,150)				(769)
<u>\$ 45,421</u>	<u>\$ 369,863</u>	<u>\$ 0</u>	<u>\$ 9,084</u>	<u>\$ 0</u>	<u>\$ 966,282</u>

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

HENDERSON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2019
(Continued)

	Total Funds	Internal Service Fund
		Health Insurance Fund
RECEIPTS		
Taxes	\$ 10,371,335	\$
In Lieu Tax Payments	374,579	
Excess Fees	24,623	
Licenses and Permits	253,443	
Intergovernmental	16,258,355	
Charges for Services	145,912	
Miscellaneous	2,445,867	2,089,715
Interest	188,679	
Total Receipts	<u>30,062,793</u>	<u>2,089,715</u>
DISBURSEMENTS		
General Government	7,098,582	
Protection to Persons and Property	6,637,602	
General Health and Sanitation	680,984	
Social Services	371,472	
Recreation and Culture	1,903,267	
Roads	3,265,994	
Airports	131,550	
Bus Services	23,911	
Debt Service	1,672,116	
Capital Projects	659,789	
Administration	4,026,965	1,683,731
Total Disbursements	<u>26,472,232</u>	<u>1,683,731</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>3,590,561</u>	<u>405,984</u>
Other Adjustments to Cash (Uses)		
Payroll Revolving Account	505,814	
General Obligation Refunding Bonds, Series 2012 Defeasance - Placed in Escrow	(947,106)	
Transfers From Other Funds	3,490,314	
Transfers To Other Funds	(3,490,314)	
Total Other Adjustments to Cash (Uses)	<u>(441,292)</u>	
Net Change in Fund Balance	3,149,269	405,984
Fund Balance - Beginning (Restated)	<u>19,418,131</u>	<u>1,464,244</u>
Fund Balance - Ending	<u>\$ 22,567,400</u>	<u>\$ 1,870,228</u>
Composition of Fund Balance		
Bank Balance	\$ 21,581,804	\$ 1,887,327
Payroll Revolving Account Reconciled Balance	72,145	
Less: Outstanding Checks	(764,294)	(17,099)
Certificates of Deposit	1,677,745	
Fund Balance - Ending	<u>\$ 22,567,400</u>	<u>\$ 1,870,228</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	10
NOTE 2.	DEPOSITS AND INVESTMENTS.....	13
NOTE 3.	TRANSFERS.....	14
NOTE 4.	AGENCY TRUST FUNDS	14
NOTE 5.	RECEIVABLES	15
NOTE 6.	LONG-TERM DEBT	15
NOTE 7.	COMMITMENTS AND CONTINGENCIES	19
NOTE 8.	EMPLOYEE RETIREMENT SYSTEM	20
NOTE 9.	DEFERRED COMPENSATION.....	22
NOTE 10.	SELF-INSURANCE - HEALTH	23
NOTE 11.	HEALTH REIMBURSEMENT ACCOUNT	23
NOTE 12.	INSURANCE.....	23
NOTE 13.	RELATED PARTY TRANSACTIONS.....	24
NOTE 14.	PAYROLL REVOLVING ACCOUNT	24
NOTE 15.	CONDUIT DEBT.....	24
NOTE 16.	PRIOR PERIOD ADJUSTMENTS	24

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2019

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Henderson County includes all budgeted and unbudgeted funds under the control of the Henderson County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, 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.

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.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

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

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

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

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

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

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates, or to enhance safety and security within the jail. The jailer is required to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

Internal Service Fund

Health Insurance Fund - The primary purpose of this fund is to account for the fiscal court's partially self-funded employee health insurance program.

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.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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

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

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

E. Henderson County Elected Officials

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

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Related Obligations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organizations governing board. Based on this criteria, the following are considered related organizations of the Henderson County Fiscal Court:

- Henderson County Tourist Commission
- Four Star Industrial Development

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on this criteria, the following are considered joint ventures of the Henderson County Fiscal Court:

- Henderson City-County Planning Commission
- Tri-County Recycling
- Henderson City-County Airport Board
- The Kentucky Network for Development, Leadership, and Engagement (KYNDLE)

I. Direct Borrowings and Direct Placements

GASB Statement No. 88 – Certain Disclosure Related to Debt, Including Direct Borrowings and Direct Placements - This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

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, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments

The fiscal court had \$1,270,745 in traditional certificate of deposits (CDs) in which the market and cost basis are the same. Also, the fiscal court had \$407,000 of structured CDs. Structured CDs are a form of complex financial instruments called derivatives. These types of CDs derive their value from the value of other investments. For structured CDs, the performance of their derivative portion is often based on the value of a group or index of stocks. The value of the derivative can be engineered to rise or fall when that index rises or falls, allowing investors to base their CD return on the performance of a particular security or index of securities. Structured CDs do not earn interest, instead their values at maturity is based on the difference between the stock index at a predefined starting and ending points. The amount paid at maturity will not be less than the amount of the original cost basis; however, the CDs must be held to maturity to at least get the cost basis back. The cost basis (as reported on the financial statement) of the structured CDs and the market value was \$407,000 and \$399,160, respectively.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2019.

	General Fund	Jail Fund	State Grants Fund	Total Transfers In
General Fund	\$	\$ 150,918	\$	\$ 150,918
Road Fund	2,800,000			2,800,000
Jail Fund	16,767		196,820	213,587
LGEA Fund	250,000			250,000
Federal Grants Fund			15,809	15,809
Economic Development Fund	60,000			60,000
Total Transfers Out	<u>\$ 3,126,767</u>	<u>\$ 150,918</u>	<u>\$ 212,629</u>	<u>\$ 3,490,314</u>

Reason for transfers:

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

Note 4. Agency Trust Funds

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

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2019, was \$129,592.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 5. Receivables

A. Airport

The Henderson County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust on April 19, 2007, for the purpose of funding an airport expansion (See Note 6F) project along with the City of Henderson, the principal amount of the loan was given directly to the airport. The lease amount was \$325,000. The balance of the receivable at June 30, 2019, was \$175,314.

B. Reed Fire Department

During fiscal year 2013, the Henderson County Fiscal Court loaned \$50,000 to the Reed Volunteer Fire Department. This loan was to be paid back with an annual payment of \$5,000 with no interest added. The fiscal court reduces the amount contributed to the Reed Volunteer Fire Department by \$5,000 each year. The balance of the receivable at June 30, 2019, was \$29,983.

Note 6. Long-term Debt

A. General Obligation Refunding Bonds, Series 2012 - Detention Facility Project

The County of Henderson, Kentucky issued \$1,865,000 General Obligation Refunding Bonds, Series 2012 dated May 2012, for the purpose of refunding and retiring a portion of the County's 2003 Detention Center Bond. Principal payments are due each year on June 1, in amounts indicated below starting June 1, 2012. Interest on the bonds will be payable semi-annually on June 1 and December 1, beginning June 1, 2012. The bonds were defeased on March 27, 2019. A deposit was made into an escrow account in the amount of \$952,856. The bonds will be redeemed on June 1, 2022.

B. General Obligation Refunding Bonds, Series 2013 - Detention Center

The County of Henderson, Kentucky issued \$3,335,000 General Obligation Refunding Bonds, Series 2013 dated September 2013, for the purpose of refunding and retiring a portion of the county's 2003 Detention Center Bond. Principal payments are due each year on June 1, in amounts indicated below starting June 1, 2014. Interest on the bonds will be payable semi-annually on June 1 and December 1, beginning June 1, 2014. The bonds contain a provision that in an event of default, outstanding amounts become immediately due if the Fiscal Court is unable to make payment. The principal balance outstanding for the bond issue as of June 30, 2019, was \$1,445,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 345,000	\$ 40,738
2021	355,000	32,112
2022	365,000	22,350
2023	380,000	11,400
Totals	<u>\$ 1,445,000</u>	<u>\$ 106,600</u>

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 6. Long-term Debt (Continued)

C. General Obligation Bonds, Series 2015 - 911 Emergency System

The County of Henderson, Kentucky issued \$3,545,000 General Obligation Bonds, Series 2015 dated November 2015, for the purpose of funding a new 911 emergency system. Principal payments are due each year on December 1, in amounts indicated below starting December 1, 2016. Interest on the bonds will be payable semi-annually on June 1 and December 1, beginning June 1, 2016. The bonds contain a provision that in an event of default, outstanding amounts become immediately due if the Fiscal Court is unable to make payment. The principal balance outstanding for the bond issue as of June 30, 2019, was \$2,925,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 215,000	\$ 69,550
2021	220,000	65,200
2022	225,000	60,750
2023	230,000	56,200
2024	235,000	51,550
2025-2029	1,250,000	173,400
2030-2031	550,000	16,650
Totals	<u>\$ 2,925,000</u>	<u>\$ 493,300</u>

D. Lease Revenue Refunding Bonds, Series 2017 - Court Facility Project

The Henderson County Public Properties Corporation issued \$5,495,881 Lease Revenue Refunding Bonds, Series 2017 dated February 9, 2017, for the purpose of refunding and retiring the Courts Facility - Series 2006 Bonds. Principal payments are due each year on February 1, in amounts indicated below starting February 1, 2018. Interest on the bonds will be payable semi-annually on February 1 and August 1, beginning August 1, 2017. The bonds contain a provision that in an event of default, outstanding amounts become immediately due if the Fiscal Court is unable to make payment. The principal balance outstanding for the bond issue as of June 30, 2019, was \$4,669,938. Annual debt service requirements to maturity are as follows:

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 6. Long-term Debt (Continued)

D. Lease Revenue Refunding Bonds, Series 2017 - Court Facility Project (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 624,717	\$ 100,404
2021	637,059	86,972
2022	653,475	73,275
2023	664,274	59,226
2024	684,531	44,944
2025-2026	<u>1,405,882</u>	<u>45,531</u>
Totals	<u>\$ 4,669,938</u>	<u>\$ 410,352</u>

E. General Obligation Public Project Bonds, Series 2017 – Detention Facility Project

The County of Henderson, Kentucky Court issued \$2,215,000 General Obligation Public Project Bonds, Series 2017 dated February 7, 2017, for the purpose of financing the costs of acquisition, construction, installation and equipping of improvements to the Henderson County Detention Facility. Principal payments are due each year on March 1, in amounts indicated below starting March 1, 2019. Interest on the bonds will be payable semi-annually on March 1 and September 1, beginning September 1, 2017. The bonds contain a provision that in an event of default, outstanding amounts become immediately due if the Fiscal Court is unable to make payment. The principal balance outstanding for the bond issue as of June 30, 2019, was \$1,810,000. Annual debt service requirement to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 210,000	\$ 45,650
2021	215,000	41,450
2022	220,000	37,150
2023	220,000	32,750
2024	225,000	28,350
2025-2027	<u>720,000</u>	<u>43,500</u>
Totals	<u>\$ 1,810,000</u>	<u>\$ 228,850</u>

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 6. Long-term Debt (Continued)

F. Financing Obligation - Airport Lease (Direct Borrowing)

The County of Henderson, Kentucky entered into a lease agreement with the Kentucky Association of Counties Leasing Trust on April 19, 2007, for the purpose of funding an airport expansion project along with the City of Henderson, the principal amount of the loan was given directly to the airport. The lease amount was \$325,000. Principal and interest payments are due monthly. Interest is charged at a rate of 4.338 percent. The lease will be paid in full on May 20, 2027. The principal balance as of June 30, 2019, was \$175,314. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 17,750	\$ 7,347
2021	18,870	6,575
2022	20,061	5,756
2023	21,327	4,884
2024	22,672	3,964
2026-2027	74,634	5,712
Totals	<u>\$ 175,314</u>	<u>\$ 34,238</u>

G. Financing Obligation - Gradall Lease (Direct Borrowing)

The County of Henderson, Kentucky entered into a lease agreement with Field & Main Bank on July 20, 2016, for the purpose of purchasing a 2016 Volvo Gradall. The principal amount of the loan was given directly to the vendor. The 2016 Volvo Gradall is collateral for the lease. The lease amount was \$260,000. Principal and interest payments are due monthly. Interest is charged at a rate of 2.90 percent. The lease will be paid in full on July 20, 2019. The principal balance as of June 30, 2019, was \$7,577. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	<u>\$ 7,577</u>	<u>\$ 18</u>
Totals	<u>\$ 7,577</u>	<u>\$ 18</u>

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 6. Long-term Debt (Continued)

H. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Reductions	Defeasance	Ending Balance	Due Within One Year
Lease Revenue Refunding Bonds	\$ 5,281,306	\$ 611,368	\$	\$ 4,669,938	\$ 624,717
General Obligation Refunding Bonds	2,725,000	345,000	935,000	1,445,000	345,000
General Obligation Bonds	5,150,000	415,000		4,735,000	425,000
Notes from Direct Borrowing	288,495	105,604		182,891	25,327
Total Long-term Debt	<u>\$ 13,444,801</u>	<u>\$ 1,476,972</u>	<u>\$ 935,000</u>	<u>\$11,032,829</u>	<u>\$ 1,420,044</u>

The Fiscal Court's outstanding notes from direct borrowing related to governmental activities of \$182,891 (Airport Lease (F above) and Gradall Lease (G above) contain a provision that in an event of default, outstanding amounts become immediately due if the Fiscal Court is unable to make payment. The Gradall Lease (G above) is secured with collateral of the 2016 Volvo Gradall. No collateral was secured for the Airport Lease.

Note 7. Commitments and Contingencies

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

A. Industrial Revenue Bonds

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

B. Ambulance Service Agreement

In April 1983, the County of Henderson along with the City of Henderson entered into an agreement with Community Methodist Hospital for the operation of a countywide ambulance service. The hospital agreed to operate the ambulance service with both the City and County reimbursing the hospital for any operating loss incurred on a quarterly basis. Expenses incurred under this agreement for fiscal year ended June 30, 2019, were \$217,746.

C. Henderson City-County Planning Commission

The Henderson County Fiscal Court (fiscal court) has retained an ongoing financial responsibility for the Henderson City-County Planning Commission (planning commission). The planning commission is a joint venture between fiscal court and City of Henderson to assist and promote the orderly development of the county and cities. The fiscal court and City of Henderson are each responsible for 50 percent of the basic administration included in the budget of the planning commission. Expenses incurred under this agreement for fiscal year ended June 30, 2019, were \$365,099.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 7. Commitments and Contingencies (Continued)

D. Henderson City-County Airport Board

The Henderson County Fiscal Court (fiscal court) has retained an ongoing financial responsibility for the Henderson City-County Airport Board. The Airport Board is a joint venture between the fiscal court and the City of Henderson to assist and promote the Henderson City-County Airport. Expenses incurred under this agreement for fiscal year ended June 30, 2019, was \$142,000.

E. KYNDLE (Formerly Northwest KY Forward)

The Henderson County Fiscal Court (fiscal court) has retained an ongoing financial responsibility for the Kentucky Network for Development, Leadership and Engagement (KYNDLE), which is a joint venture between the fiscal court and City of Henderson to assist and promote Henderson County. Expenses incurred under this agreement for fiscal year ended June 30, 2019, was \$56,000.

Note 8. 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 2017 was \$1,302,529, FY 2018 was \$1,256,770, and FY 2019 was \$1,492,137.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

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

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

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 8. Employee Retirement System (Continued)

Nonhazardous (Continued)

The county's contribution rate for nonhazardous employees was 21.48 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

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

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

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

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

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 8. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

C. Cost of Living Adjustments - Tier 1

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

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

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

E. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

Note 9. Deferred Compensation

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

These deferred compensation plans 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.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 9. Deferred Compensation (Continued)

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 10. Self-Insurance - Health

The Henderson County Fiscal Court elected to begin a partially self-funded health insurance plan as of April 1, 1997. County employees and the fiscal court contribute monthly towards the health insurance plan's costs. The county maintains one insurance plan with various levels of coverage (e.g. single, family, etc.). These plans offer many discounts that decrease the costs for both the employees and the fiscal court. The Riverport Authority employees also contribute to this fund. Henderson County contracted with Anthem Blue Cross Blue Shield as of January 1, 2012.

This partially self-funded insurance plan has two distinct components that the fiscal court must pay. The first component is the fixed cost, which consists of administrative fees associated with operating the plan, and specific and aggregate reinsurance costs that cap the county's claims exposure on an individual and aggregate basis. Fixed and administrative costs for fiscal year ending June 30, 2019, were \$324,410. The second component is the claims cost, all of which Henderson County is responsible to pay as they incur. Once an individual exceeds \$100,000 in claims or the county's aggregate claims exceed the predetermined maximum, then the county will receive reimbursements from the reinsurance carrier. These amounts are netted on the bill the county receives. Incurred claims for fiscal year ended June 30, 2019, were \$1,302,384. The Henderson County Fiscal Court's contract with Anthem Blue Cross Blue Shield has no terminal liability provisions. The fiscal court will be responsible to pay all run-out claims after termination. The health insurance fund had a balance of \$1,870,228 as of June 30, 2019.

Note 11. Health Reimbursement Account

The Henderson County Fiscal Court established a Health Reimbursement Account in January 2017, to provide employees an additional health benefit. The county has contracted with Wage Works, a third-party administrator, to administer the plan. The plan provides a debit card to each eligible employee providing \$750 (single health insurance plan) or \$1,500 (family health insurance plan) each year to pay for qualified medical expenses. The balance of the Health Reimbursement Account as of June 30, 2019, that was held with Wage Works was \$112,790. The fiscal court also has a Health Reimbursement Account at a local bank that had a balance of \$74,732, as of June 30, 2019. The account is used to pay out contributions and other costs related to the Health Reimbursement Account to Wage Works.

Note 12. Insurance

For the fiscal year ended June 30, 2019, the Henderson 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.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 13. Related Party Transactions

The Henderson County Fiscal Court purchased through a sealed bid, a steel deck bridge from a company that employs the finance officer's husband. During the fiscal year, the fiscal court paid \$78,700 to this bridge company.

The Henderson County Fiscal Court under the Henderson County Rural Communities Revolving Loan Fund loaned a magistrate that took office in January 1, 2019 \$10,000 in December 27, 2012. The magistrate is paying the loan (interest free) back in monthly payments of \$83. The loan will be paid off in February 1, 2023. The balance of the interest loan was \$3,584 as of June 30, 2019.

Note 14. Payroll Revolving Account

The change in the balance of the payroll revolving account as of June 30, 2019, was added to the general fund cash balance for financial reporting purposes.

Note 15. 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 Henderson 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, 2019, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

Note 16. Prior Period Adjustments

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Total All Funds</u>
Ending Cash Balance Prior Year	\$ 10,242,952	\$ 714,074	\$ 6,806,359	\$ 19,414,376
Adjustments:				
Prior Year Voided Checks	<u>2,038</u>	<u>285</u>	<u>1,432</u>	<u>3,755</u>
Beginning Fund Balance Restated	<u>\$ 10,244,990</u>	<u>\$ 714,359</u>	<u>\$ 6,807,791</u>	<u>\$ 19,418,131</u>

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

For The Year Ended June 30, 2019

THIS PAGE LEFT BLANK INTENTIONALLY

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 9,332,000	\$ 9,332,000	\$ 10,371,335	\$ 1,039,335
In Lieu Tax Payments	401,000	401,000	374,579	(26,421)
Excess Fees	40,000	40,000	24,623	(15,377)
Licenses and Permits	110,000	110,000	128,513	18,513
Intergovernmental	2,944,035	2,953,597	3,259,518	305,921
Miscellaneous	192,000	192,000	266,806	74,806
Interest	20,000	20,000	82,588	62,588
Total Receipts	<u>13,039,035</u>	<u>13,048,597</u>	<u>14,507,962</u>	<u>1,459,365</u>
DISBURSEMENTS				
General Government	7,413,717	7,617,124	7,032,582	584,542
Protection to Persons and Property	509,709	532,711	474,700	58,011
Recreation and Culture	6,000	6,000	3,211	2,789
Debt Service	283,800	283,800	283,800	
Capital Projects	1,831,075	2,024,208	414,966	1,609,242
Administration	1,350,083	1,624,408	1,537,862	86,546
Total Disbursements	<u>11,394,384</u>	<u>12,088,251</u>	<u>9,747,121</u>	<u>2,341,130</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,644,651</u>	<u>960,346</u>	<u>4,760,841</u>	<u>3,800,495</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			150,918	150,918
Transfers To Other Funds	(3,474,726)	(3,474,726)	(3,126,767)	347,959
Total Other Adjustments to Cash (Uses)	<u>(3,474,726)</u>	<u>(3,474,726)</u>	<u>(2,975,849)</u>	<u>498,877</u>
Net Change in Fund Balance	(1,830,075)	(2,514,380)	1,784,992	4,299,372
Fund Balance - Beginning (Restated)	<u>1,830,075</u>	<u>2,520,380</u>	<u>10,244,990</u>	<u>7,724,610</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 6,000</u>	<u>\$ 12,029,982</u>	<u>\$ 12,023,982</u>

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,506,724	\$ 1,590,076	\$ 2,148,789	\$ 558,713
Charges for Services	15,000	15,000	20,877	5,877
Miscellaneous	80,000	80,000	101,013	21,013
Interest	500	500	5,787	5,287
Total Receipts	<u>1,602,224</u>	<u>1,685,576</u>	<u>2,276,466</u>	<u>590,890</u>
DISBURSEMENTS				
General Health and Sanitation	159,995	194,055	181,576	12,479
Recreation and Culture	389,639	477,239	456,415	20,824
Roads	3,161,005	3,789,908	3,235,931	553,977
Administration	835,663	768,452	761,728	6,724
Total Disbursements	<u>4,546,302</u>	<u>5,229,654</u>	<u>4,635,650</u>	<u>594,004</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,944,078)</u>	<u>(3,544,078)</u>	<u>(2,359,184)</u>	<u>1,184,894</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,944,078	2,944,078	2,800,000	(144,078)
Total Other Adjustments to Cash (Uses)	<u>2,944,078</u>	<u>2,944,078</u>	<u>2,800,000</u>	<u>(144,078)</u>
Net Change in Fund Balance		(600,000)	440,816	1,040,816
Fund Balance - Beginning (Restated)		<u>600,000</u>	<u>714,359</u>	<u>114,359</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,155,175</u>	<u>\$ 1,155,175</u>

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 7,929,136	\$ 7,929,136	\$ 9,323,416	\$ 1,394,280
Charges for Services	70,000	70,000	125,035	55,035
Miscellaneous	415,000	415,000	515,144	100,144
Interest	25,000	25,000	98,546	73,546
Total Receipts	<u>8,439,136</u>	<u>8,439,136</u>	<u>10,062,141</u>	<u>1,623,005</u>
DISBURSEMENTS				
Protection to Persons and Property	5,977,888	6,525,888	5,864,118	661,770
Debt Service	1,159,582	967,476	663,400	304,076
Capital Projects	244,823	244,823	244,823	
Administration	2,140,532	2,168,195	1,727,375	440,820
Total Disbursements	<u>9,522,825</u>	<u>9,906,382</u>	<u>8,499,716</u>	<u>1,406,666</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,083,689)</u>	<u>(1,467,246)</u>	<u>1,562,425</u>	<u>3,029,671</u>
Other Adjustments to Cash (Uses)				
General Obligation Refunding Bonds, Series 2012 Defeasance - Placed in Escrow		(947,106)	(947,106)	
Transfers From Other Funds		375,663	213,587	(162,076)
Transfers To Other Funds			(150,918)	(150,918)
Total Other Adjustments to Cash (Uses)		<u>(571,443)</u>	<u>(884,437)</u>	<u>(312,994)</u>
Net Change in Fund Balance	(1,083,689)	(2,038,689)	677,988	2,716,677
Fund Balance - Beginning (Restated)	<u>1,083,689</u>	<u>2,038,689</u>	<u>6,807,791</u>	<u>4,769,102</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,485,779</u>	<u>\$ 7,485,779</u>

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Licenses and Permits	\$ 100,000	\$ 100,000	\$ 124,930	\$ 24,930
Intergovernmental	496,067	496,067	422,824	(73,243)
Miscellaneous	41,000	41,000	179	(40,821)
Interest	100	100	87	(13)
Total Receipts	<u>637,167</u>	<u>637,167</u>	<u>548,020</u>	<u>(89,147)</u>
DISBURSEMENTS				
Protection to Persons and Property	281,000	289,200	285,584	3,616
General Health and Sanitation	567,491	544,291	390,735	153,556
Social Services	186,215	201,215	171,472	29,743
Recreation and Culture	9,641	9,641	9,640	1
Roads	30,068	30,068	30,063	5
Bus Services	32,500	32,500	23,911	8,589
Administration	1,000	1,000		1,000
Total Disbursements	<u>1,107,915</u>	<u>1,107,915</u>	<u>911,405</u>	<u>196,510</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(470,748)</u>	<u>(470,748)</u>	<u>(363,385)</u>	<u>107,363</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>470,748</u>	<u>470,748</u>	<u>250,000</u>	<u>(220,748)</u>
Total Other Adjustments to Cash (Uses)	<u>470,748</u>	<u>470,748</u>	<u>250,000</u>	<u>(220,748)</u>
Net Change in Fund Balance			(113,385)	(113,385)
Fund Balance - Beginning			<u>158,806</u>	<u>158,806</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 45,421</u>	<u>\$ 45,421</u>

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	STATE GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,213,200	\$ 1,213,200	\$ 263,151	\$ (950,049)
Miscellaneous		178,843	2,874	(175,969)
Total Receipts	<u>1,213,200</u>	<u>1,392,043</u>	<u>266,025</u>	<u>(1,126,018)</u>
DISBURSEMENTS				
General Government	1,000,000	1,000,000		1,000,000
Protection to Persons and Property	13,200	13,200	13,200	
General Health and Sanitation		132,000	108,673	23,327
Social Services	200,000	200,000	200,000	
Total Disbursements	<u>1,213,200</u>	<u>1,345,200</u>	<u>321,873</u>	<u>1,023,327</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>46,843</u>	<u>(55,848)</u>	<u>(102,691)</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds		<u>(375,663)</u>	<u>(212,629)</u>	<u>163,034</u>
Total Other Adjustments to Cash (Uses)		<u>(375,663)</u>	<u>(212,629)</u>	<u>163,034</u>
Net Change in Fund Balance		(328,820)	(268,477)	60,343
Fund Balance - Beginning		<u>328,820</u>	<u>638,340</u>	<u>309,520</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 369,863</u>	<u>\$ 369,863</u>

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	FEDERAL GRANTS FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 167,944	\$ 167,944	\$ 115,741	\$ (52,203)
Total Receipts	<u>167,944</u>	<u>167,944</u>	<u>115,741</u>	<u>(52,203)</u>
DISBURSEMENTS				
Airports	167,944	167,944	131,550	36,394
Total Disbursements	<u>167,944</u>	<u>167,944</u>	<u>131,550</u>	<u>36,394</u>
Excess (Deficiency) of Receipts Over Adjustments to Cash (Uses)			<u>(15,809)</u>	<u>(15,809)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			15,809	15,809
Total Other Adjustments to Cash (Uses)			<u>15,809</u>	<u>15,809</u>
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 50,000	\$ 0	\$ 0	\$ 0
Interest	100	100	134	34
Total Receipts	<u>50,100</u>	<u>100</u>	<u>134</u>	<u>34</u>
DISBURSEMENTS				
General Government	110,000	66,000	66,000	
Total Disbursements	<u>110,000</u>	<u>66,000</u>	<u>66,000</u>	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(59,900)</u>	<u>(65,900)</u>	<u>(65,866)</u>	<u>34</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>59,900</u>	<u>59,900</u>	<u>60,000</u>	<u>100</u>
Total Other Adjustments to Cash (Uses)	<u>59,900</u>	<u>59,900</u>	<u>60,000</u>	<u>100</u>
Net Change in Fund Balance		(6,000)	(5,866)	134
Fund Balance - Beginning			<u>14,950</u>	<u>14,950</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (6,000)</u>	<u>\$ 9,084</u>	<u>\$ 15,084</u>

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

June 30, 2019

Note 1. Budgetary Information

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

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

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

Note 2. Reconciliation of the General Fund

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ (2,975,849)
To adjust for change in Payroll Revolving Account	<u>505,814</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ (2,470,035)</u>
Fund Balance - Ending - Budgetary Basis	\$ 12,029,982
To adjust for change in Payroll Revolving Account	<u>505,814</u>
Total Fund Balance - Ending - Regulatory Basis	<u>\$ 12,535,796</u>

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

For The Year Ended June 30, 2019

THIS PAGE LEFT BLANK INTENTIONALLY

HENDERSON COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2019

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Transfer	Deletions	Ending Balance
Land and Land Improvements	\$ 623,213	\$ 293,870	\$	\$	\$ 917,083
Construction In Progress	1,667,924	166,571	1,667,924		166,571
Buildings	22,092,644	244,822	(1,667,924)		24,005,390
Vehicles and Equipment	7,896,947	769,923		59,981	8,606,889
Equipment - Jail Commissary	70,996	49,692			120,688
Infrastructure	11,908,786	881,591			12,790,377
	<u>11,908,786</u>	<u>881,591</u>	<u></u>	<u></u>	<u>12,790,377</u>
 Total Capital Assets	 <u>\$ 44,260,510</u>	 <u>\$ 2,406,469</u>	 <u>\$</u>	 <u>\$ 59,981</u>	 <u>\$46,606,998</u>

**HENDERSON COUNTY
NOTES TO OTHER INFORMATION – REGULATORY BASIS
SCHEDULE OF CAPITAL ASSETS**

June 30, 2019

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	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

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

THIS PAGE LEFT BLANK INTENTIONALLY

The Honorable Brad Schneider, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Henderson County Fiscal Court for the fiscal year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the Henderson County Fiscal Court's financial statement and have issued our report thereon dated November 26, 2019.

Internal Control Over Financial Reporting

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

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 one deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and that we consider to be a significant deficiency as item 2019-002.

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 Henderson County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2019-001 and 2019-002.

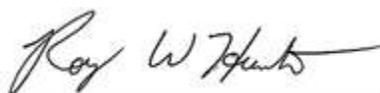
Views of Responsible Official and Planned Corrective Action

Henderson County's views and planned corrective action for the finding identified in our audit is 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,

A handwritten signature in black ink that reads "Roy W. Hunter". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Roy W. Hunter, CPA, PLLC
Lexington, Kentucky

November 26, 2019

**HENDERSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

THIS PAGE LEFT BLANK INTENTIONALLY

**HENDERSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 The Henderson County Fiscal Court's Payroll Revolving Account Was Not Properly Reconciled

This is a repeat finding and was included in the prior year report as finding 2018-001. The finding was reduced to a control deficiency only due to the ending payroll balance being under materiality; however, the finding will remain in the audit report as a noncompliance. During the current year, the ending balance in the payroll revolving account did not reconcile to a zero or minimum positive cash balance. The ending reconciled balance in the payroll account was \$72,145.

The county treasurer did not transfer enough funds out of the payroll account at year-end to get the reconciled balance to \$10,000, which is the small reserve chosen by the fiscal court.

The unreconciled payroll revolving account caused the fiscal court to have excess monies in the payroll account that could be needed in other funds.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires the county treasurer to prepare monthly bank reconciliations. Due to the nature of revolving accounts, only the funds necessary to pay employees and government agencies are transferred from other funds. Therefore, the reconciled balance each month of the payroll revolving account should be \$10,000 or less.

We recommend that the payroll revolving account reconcile to \$10,000 or less at the end of each month.

Views of Responsible Official and Planned Corrective Action:

The health insurance funds were separated from the payroll funds June 25, 2019. Given the timeframe, it was intended that the reconciling of the payroll under \$10,000 would take place in the new fiscal year.

**HENDERSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2019
(Continued)**

FINANCIAL STATEMENT FINDINGS (CONTIUNED)

2019-002 The Henderson County Fiscal Court Lacks Adequate Controls Over Their Bid Process And Was Not In Compliance With Bid Laws

This is a repeat finding and was included in the prior year report as finding 2018-004. The Henderson County Fiscal Court failed to bid out fuel for fiscal year 2019. Henderson County purchased fuel from Palmer Oil Company and Home Oil & Gas Company multiple times throughout the fiscal year, and these purchases combined exceeded \$175,000. The Henderson County Fiscal Court also failed to bid out three capital asset additions over \$20,000 in fiscal year 2019.

According to the County Treasurer, the county was unaware that they were supposed to bid out a cost (fuel) that exceeded \$20,000 for the entire year. They thought since each individual purchase was less than \$20,000 it was not necessary to bid. Additionally, it was an oversight due to different departments handling the purchases of capital assets.

Since bidding procedures were not followed, it is possible that the county did not get the lowest rate for fuel purchased or lowest price on the capital assets. This also puts the county at higher risk for potential fraudulent purchases.

Strong internal controls require management to monitor disbursements and purchase orders to ensure compliance with bid laws, and to keep good records of all bid transactions. KRS 424.260 (1) states “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.”

We recommend fiscal court monitor all disbursements to ensure that bidding procedures are followed for all qualifying disbursements. The fiscal court should also document these procedures in the fiscal court minutes.

Views of Responsible Official and Planned Corrective Action:

The Treasurer and the Judge Executive did not receive the State Auditor’s Office’s new directive on handling fuel bid until August of the 2019, after the completion of the 2018-2019 fiscal year, so that guidance could not be acted upon during the period covered by this audit. The new guidance has now become our policy and will be utilized in the manner prescribed by the state. Likewise, our staff believed, and had never previously been told otherwise, that an item’s purchase price was the only factor in determining whether it exceeded the threshold to trigger a formal bid process. They had not been advised in any previous audits that shipping costs are also part of the threshold consideration. With this new guidance, our price considerations will now include shipping costs.

Auditor’s Reply

The Fiscal Court should obtain a clear understanding of the requirements of bidding and not rely on guidance from the Kentucky State Auditor’s Office.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HENDERSON COUNTY FISCAL COURT**

For The Year Ended June 30, 2019

THIS PAGE LEFT BLANK INTENTIONALLY

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

For The Year Ended June 30, 2019

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



County Judge/Executive



County Treasurer