

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

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



**MIKE HARMON  
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**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**SPENCER COUNTY FISCAL COURT**

**June 30, 2016**

The Auditor of Public Accounts has completed the audit of the Spencer County Fiscal Court for the fiscal year ended June 30, 2016.

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

**Financial Condition:**

The Spencer County Fiscal Court had total receipts of \$7,121,182 and disbursements of \$6,778,084 in fiscal year 2016. This resulted in a total ending fund balance of \$1,287,770, which is an increase of \$343,098 from the prior year.

**Deposits:**

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



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable John Riley, Spencer County Judge/Executive  
Members of the Spencer 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 Spencer County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Spencer 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 Spencer 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 Spencer County Fiscal Court as of June 30, 2016, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

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

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Spencer 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 April 4, 2017, on our consideration of the Spencer 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 Spencer County Fiscal Court's internal control over financial reporting and compliance.

Respectfully submitted,

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

Mike Harmon  
Auditor of Public Accounts

April 4, 2017

SPENCER COUNTY OFFICIALS

For The Year Ended June 30, 2016

**Fiscal Court Members:**

John Riley	County Judge/Executive
Jim J. Williams	Magistrate
Hobert Judd	Magistrate
Brian Bayers	Magistrate
Collis Rogers	Magistrate
David Goodlett	Magistrate

**Other Elected Officials:**

Kenneth S. Jones	County Attorney
Darrell Herndon	Jailer
Lynn Hesselbrock	County Clerk
Beck M. Robinson	Circuit Court Clerk
Donald Stump, Jr.	Sheriff
Kim Stump	Property Valuation Administrator
Danny Hilbert	Coroner

**Appointed Personnel:**

Doug Williams	County Treasurer
Karen Clark	Deputy Judge Executive/Finance Officer

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

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



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

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

	<u>Budgeted Funds</u>			
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	
<b>RECEIPTS</b>				
Taxes	\$ 2,341,423	\$	\$	\$ 2,341,423
In Lieu Tax Payments	34,785			34,785
Licenses and Permits	342,778			342,778
Intergovernmental	1,831,194	1,669,070	109,324	3,609,588
Charges for Services	463,560			463,560
Miscellaneous	228,405	98,870		327,275
Interest	1,427	304	42	1,773
Total Receipts	<u>5,243,572</u>	<u>1,768,244</u>	<u>109,366</u>	<u>7,121,182</u>
<b>DISBURSEMENTS</b>				
General Government	2,177,748		31,913	2,209,661
Protection to Persons and Property	1,032,321		226,152	1,258,473
General Health and Sanitation	192,417			192,417
Social Services	84,162			84,162
Recreation and Culture	154,261			154,261
Roads		1,565,313		1,565,313
Debt Service	48,630			48,630
Capital Projects	177,153			177,153
Administration	827,540	235,147	25,327	1,088,014
Total Disbursements	<u>4,694,232</u>	<u>1,800,460</u>	<u>283,392</u>	<u>6,778,084</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>549,340</u>	<u>(32,216)</u>	<u>(174,026)</u>	<u>343,098</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds		495,100	130,000	625,100
Transfers To Other Funds	(625,100)			(625,100)
Total Other Adjustments to Cash (Uses)	<u>(625,100)</u>	<u>495,100</u>	<u>130,000</u>	<u></u>
Net Change in Fund Balance	(75,760)	462,884	(44,026)	343,098
Fund Balance - Beginning (Restated)	603,506	247,662	93,504	944,672
Fund Balance - Ending	<u>\$ 527,746</u>	<u>\$ 710,546</u>	<u>\$ 49,478</u>	<u>\$ 1,287,770</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 552,697	\$ 712,958	\$ 65,615	\$ 1,331,270
Less: Outstanding Checks	(24,951)	(2,412)	(16,137)	(43,500)
Fund Balance - Ending	<u>\$ 527,746</u>	<u>\$ 710,546</u>	<u>\$ 49,478</u>	<u>\$ 1,287,770</u>

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

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TO THE FINANCIAL STATEMENT**

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**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2016**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of Spencer County includes all budgeted funds under the control of the Spencer 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.

**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 functions.

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 government 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.

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

**Note 1. Summary of Significant Accounting Policies (Continued)**

**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.

**E. Spencer County Elected Officials**

Kentucky law provides for election of the officials listed below from the geographic area constituting Spencer 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 Spencer 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).



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

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

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

**Note 2. Deposits**

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

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the fiscal court's deposits may not be returned. The fiscal court does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note 3. Transfers**

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

	General Fund	Total Transfers In
Road Fund	\$ 495,100	\$ 495,100
Jail Fund	130,000	130,000
Total Transfers Out	<u>\$ 625,100</u>	<u>\$ 625,100</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.

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

**Note 4. Long-term Debt**

**A. Ambulance Building**

On January 15, 2013, the Spencer County Fiscal Court signed an agreement with the Spencer County Extension Foundation to purchase the old extension building for \$250,000 at an interest rate of zero percent for ten years. The Spencer County Fiscal Court paid \$25,000 and will pay the remaining balance of \$225,000 at the rate of \$1,875 per month until paid in full. The following schedule indicates the required principal payments according to the original lease agreement. The outstanding principal balance was \$146,250 as of June 30, 2016.

Fiscal Year Ending June 30, 2016	Principal
2017	\$ 22,500
2018	22,500
2019	22,500
2020	22,500
2021	22,500
2022-2023	33,750
Totals	<u>\$ 146,250</u>

**B. Floodwall**

On August 27, 2014, the Spencer County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to borrow \$200,000 to finance the inspection, repair, and recertification of a levee to USACE standards at a fixed interest rate of 3.430 percent for five years. The Spencer County Fiscal Court paid \$45,173 during fiscal year 2016 and will pay the remaining principal balance at the rate of \$3,333 per month until paid in full. The following schedule indicates the required principal payments according to the original lease agreement. The outstanding principal balance was \$126,667 as of June 30, 2016.

Fiscal Year Ending June 30	Principal	Interest
2017	\$ 40,000	\$ 3,769
2018	40,000	2,378
2019	40,000	986
2020	6,667	29
Totals	<u>\$ 126,667</u>	<u>\$ 7,162</u>

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

**Note 4. Long-term Debt (Continued)**

**C. Changes In Long-term Debt**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 335,417	\$	\$ 62,500	\$ 272,917	\$ 62,500
Total Long-term Debt	<u>\$ 335,417</u>	<u>\$ 0</u>	<u>\$ 62,500</u>	<u>\$ 272,917</u>	<u>\$ 62,500</u>

**Note 5. Employee Retirement System**

**Plan Description**

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

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

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. The county's contribution rate for hazardous employees was 32.95 percent.

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

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

**Note 5. Employee Retirement System (Continued)**

The county's contribution for FY 2014 was \$593,823 FY 2015 was \$561,056, and FY 2016 was \$524,914.

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.

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.

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:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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.

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, such 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.

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

**Note 5. Employee Retirement System (Continued)**

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

**Note 6. Deferred Compensation**

On March 15, 2010, the Spencer 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 7. Health Reimbursement Account/Flexible Spending Account**

The Spencer County Fiscal Court established a flexible spending account on July 1, 2009, 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 providing \$750 each year to pay for qualified medical expenses.

**Note 8. Insurance**

For the fiscal year ended June 30, 2016, the Spencer 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 9. Commitments and Contingencies**

The county is involved in multiple lawsuits that arose from the normal course of 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.

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

**Note 10. Accounts Receivable**

The Spencer County Fiscal Court provides ambulance services for citizens in the county. The ambulance service bills Medicare, Medicaid, health insurance companies, and individuals for services provided. Uncollected bills at June 30, 2016, totaled \$381,810.

**Note 11. Related Party Transactions**

The Spencer County Fiscal Court contracted for services on March 7, 2016, with the deputy judge/executive's husband, to perform building and electrical inspections. This contract is for a period of one year and may be extended by mutual agreement on a year-to-year basis. The county will compensate the deputy judge/executive's husband for "open inspections," for which the county has already received payment, but have not been requested for inspection at this time. This compensation is to be paid to the deputy judge/executive's husband with the commencement of this contract. The amount compensated to the deputy judge/executive's husband for "open inspections" during fiscal year 2016 was \$13,898. Following this initial compensation, fees for new permit inspections, as previously established by the county, shall be paid directly to the deputy judge/executive's husband from the individuals seeking the permits and inspections.

**Note 12. Prior Period Adjustments**

The prior period ending balances for the general fund and the road fund were increased by \$1,295 and \$297, respectively, to include prior year voided checks.

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

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





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

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

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 2,275,500	\$ 2,286,884	\$ 2,341,423	\$ 54,539
In Lieu Tax Payments	20,000	20,000	34,785	14,785
Licenses and Permits	300,000	303,641	342,778	39,137
Intergovernmental	1,242,979	1,377,265	1,831,194	453,929
Charges for Services	460,500	464,825	463,560	(1,265)
Miscellaneous	68,800	227,674	228,405	731
Interest	1,400	1,400	1,427	27
Total Receipts	<u>4,369,179</u>	<u>4,681,689</u>	<u>5,243,572</u>	<u>561,883</u>
<b>DISBURSEMENTS</b>				
General Government	2,070,934	2,290,058	2,177,748	112,310
Protection to Persons and Property	1,061,644	1,098,214	1,032,321	65,893
General Health and Sanitation	189,160	200,660	192,417	8,243
Social Services	70,500	90,150	84,162	5,988
Recreation and Culture	130,200	163,700	154,261	9,439
Debt Service	66,100	66,100	48,630	17,470
Capital Projects	206,000	200,000	177,153	22,847
Administration	820,596	913,661	827,540	86,121
Total Disbursements	<u>4,615,134</u>	<u>5,022,543</u>	<u>4,694,232</u>	<u>328,311</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(245,955)</u>	<u>(340,854)</u>	<u>549,340</u>	<u>890,194</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	<u>(164,045)</u>	<u>(261,358)</u>	<u>(625,100)</u>	<u>(363,742)</u>
Total Other Adjustments to Cash (Uses)	<u>(164,045)</u>	<u>(261,358)</u>	<u>(625,100)</u>	<u>(363,742)</u>
Net Change in Fund Balance	(410,000)	(602,212)	(75,760)	526,452
Fund Balance - Beginning (Restated)	<u>410,000</u>	<u>602,212</u>	<u>603,506</u>	<u>1,294</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 527,746</u>	<u>\$ 527,746</u>

**SPENCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2016**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,132,944	\$ 1,675,904	\$ 1,669,070	\$ (6,834)
Miscellaneous	1,500	74,500	98,870	24,370
Interest	470	470	304	(166)
Total Receipts	<u>1,134,914</u>	<u>1,750,874</u>	<u>1,768,244</u>	<u>17,370</u>
<b>DISBURSEMENTS</b>				
Roads	891,453	1,801,860	1,565,313	236,547
Administration	328,461	303,691	235,147	68,544
Total Disbursements	<u>1,219,914</u>	<u>2,105,551</u>	<u>1,800,460</u>	<u>305,091</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(85,000)</u>	<u>(354,677)</u>	<u>(32,216)</u>	<u>322,461</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	10,000	107,313	495,100	387,787
Total Other Adjustments to Cash (Uses)	<u>10,000</u>	<u>107,313</u>	<u>495,100</u>	<u>387,787</u>
Net Change in Fund Balance	(75,000)	(247,364)	462,884	710,248
Fund Balance - Beginning (Restated)	<u>75,000</u>	<u>247,364</u>	<u>247,662</u>	<u>298</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 710,546</u>	<u>\$ 710,546</u>

**SPENCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2016**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 109,595	\$ 113,695	\$ 109,324	\$ (4,371)
Miscellaneous	200	200		(200)
Interest	60	60	42	(18)
Total Receipts	<u>109,855</u>	<u>113,955</u>	<u>109,366</u>	<u>(4,589)</u>
<b>DISBURSEMENTS</b>				
General Government	27,000	34,500	31,913	2,587
Protection to Persons and Property	260,500	298,004	226,152	71,852
Administration	36,400	29,000	25,327	3,673
Total Disbursements	<u>323,900</u>	<u>361,504</u>	<u>283,392</u>	<u>78,112</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(214,045)</u>	<u>(247,549)</u>	<u>(174,026)</u>	<u>73,523</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	154,045	154,045	130,000	(24,045)
Total Other Adjustments to Cash (Uses)	<u>154,045</u>	<u>154,045</u>	<u>130,000</u>	<u>(24,045)</u>
Net Change in Fund Balance	(60,000)	(93,504)	(44,026)	49,478
Fund Balance - Beginning	<u>60,000</u>	<u>93,504</u>	<u>93,504</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 49,478</u>	<u>\$ 49,478</u>

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

**June 30, 2016**

**Note 1. Budgetary Information**

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

**SPENCER COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2016**



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

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

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance Restated*	Additions	Deletions	Ending Balance
Land	\$ 323,379	\$	\$	\$ 323,379
Land Improvements	130,312			130,312
Buildings	2,463,578	115,139		2,578,717
Vehicles and Equipment*	3,010,751	241,856	111,089	3,141,518
Infrastructure*	3,864,753	916,872		4,781,625
Total Capital Assets	<u>\$ 9,792,773</u>	<u>\$ 1,273,867</u>	<u>\$ 111,089</u>	<u>\$ 10,955,551</u>

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

**June 30, 2016**

**Note 1. Capital Assets**

Capital assets, which include land, land improvements, buildings, 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.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-50
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**Note 2. Prior Period Adjustments**

The Capital Assets Schedule beginning balances for vehicles and equipment and infrastructure were increased by \$10,100 and \$170,234, respectively, to include prior year additions not reported.



**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***





MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Riley, Spencer County Judge/Executive  
Members of the Spencer 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 Spencer County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Spencer County Fiscal Court's financial statement and have issued our report thereon dated April 4, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Spencer County Fiscal Court's internal control over financial reporting (internal control) to determine 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 Spencer County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Spencer 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 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. 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.



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 Spencer 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

April 4, 2017

