

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

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

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

## **Independent Auditors' Report**

### **Report on the Financial Statement**

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

### **Auditors' 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 auditors' 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 auditors consider 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 more fully in Note 1 of the financial statement, the financial statement is prepared by Fleming 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 Fleming 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 Fleming 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 Fleming County Fiscal Court. The budgetary comparison schedules and the schedule of capital assets 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 the schedule of capital assets 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

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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 the schedule of capital assets are fairly stated in all material respects in relation to the financial statement as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2017 on our consideration of Fleming 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 Fleming County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report finding:

2016-001 The Fiscal Court Lacks Adequate Internal Control Over Payroll



Morgan-Franklin, LLC  
West Liberty, Kentucky

January 24, 2017

## **FLEMING COUNTY OFFICIALS**

For The Year Ended June 30, 2016

### **Fiscal Court Members:**

Larry Foxworthy	County Judge/Executive
David Deatley	Magistrate
Chris Hickerson	Magistrate
Rickey Lewis	Magistrate
Ray Money	Magistrate
John Sims	Magistrate
James Smoot	Magistrate

### **Other Elected Officials:**

John Price	County Attorney
Tim Cooper	Jailer
Jarrod Fritz	County Clerk
Amy Saunders	Circuit Court Clerk
Gary Kinder	Sheriff
Michele Butler	Property Valuation Administrator
Winston Grannis	Coroner

### **Appointed Personnel:**

Kathryn Dryden	County Treasurer
Tammy Gray	Finance Officer

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

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

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

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

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 1,792,616	\$	\$
Excess Fees	127,520		
Licenses and Permits	28,039		
Intergovernmental	558,043	1,669,184	117,148
Charges for Services	100		22,876
Miscellaneous	379,563	28,791	258
Interest	1,376	1,093	
Total Receipts	<u>2,887,257</u>	<u>1,699,068</u>	<u>140,282</u>
<b>DISBURSEMENTS</b>			
General Government	838,256		
Protection to Persons and Property	126,363	854	513,274
General Health and Sanitation	301,939		
Social Services	7,035		
Recreation and Culture	37,950		
Transportation Services and Facilities		5,733	
Roads		1,818,446	
Airports			
Debt Service	16,343		
Administration	819,048	213,623	26,066
Total Disbursements	<u>2,146,934</u>	<u>2,038,656</u>	<u>539,340</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	740,323	(339,588)	(399,058)
<b>Other Adjustments to Cash (Uses)</b>			
Payroll Revolving Account	8,192		
Transfers From Other Funds		246,000	398,500
Transfers To Other Funds	(644,500)		
Total Other Adjustments to Cash (Uses)	<u>(636,308)</u>	<u>246,000</u>	<u>398,500</u>
Net Change in Fund Balances	104,015	(93,588)	(558)
Fund Balances - Beginning	460,643	98,054	2,677
Fund Balances - Ending	<u>\$ 564,658</u>	<u>\$ 4,466</u>	<u>\$ 2,119</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 653,086	\$ 4,466	\$ 4,254
Less: Outstanding Checks	(32,902)		(2,135)
Less: Outstanding Liabilities	(55,526)		
Fund Balance - Ending	<u>\$ 564,658</u>	<u>\$ 4,466</u>	<u>\$ 2,119</u>

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



**FLEMING COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2016**  
**(Continued)**

	<b>Budgeted Funds</b>		
	<b>Local Government Economic Assistance Fund</b>	<b>Forest Fire Fund</b>	<b>Revolving Loan Fund</b>
<b>RECEIPTS</b>			
Taxes	\$	\$ 1,245	\$
Excess Fees			
Licenses and Permits			
Intergovernmental	72,466		
Charges for Services			
Miscellaneous			
Interest	132		150
Total Receipts	<u>72,598</u>	<u>1,245</u>	<u>150</u>
<b>DISBURSEMENTS</b>			
General Government		1,480	13,000
Protection to Persons and Property			
General Health and Sanitation			
Social Services			
Recreation and Culture			
Transportation Services and Facilities			
Roads			
Airports			7,500
Debt Service	47,022		
Administration			
Total Disbursements	<u>47,022</u>	<u>1,480</u>	<u>20,500</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	25,576	(235)	(20,350)
<b>Other Adjustments to Cash (Uses)</b>			
Payroll Revolving Account			
Transfers From Other Funds			
Transfers To Other Funds			
Total Other Adjustments to Cash (Uses)			
Net Change in Fund Balances	25,576	(235)	(20,350)
Fund Balances - Beginning	43,229	506	65,474
Fund Balances - Ending	<u>\$ 68,805</u>	<u>\$ 271</u>	<u>\$ 45,124</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 68,805	\$ 271	\$ 45,124
Less: Outstanding Checks			
Less: Outstanding Liabilities			
Fund Balance - Ending	<u>\$ 68,805</u>	<u>\$ 271</u>	<u>\$ 45,124</u>

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

**FLEMING COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2016**  
**(Continued)**

	<u>Budgeted Funds</u>		<u>Unbudgeted Funds</u>	
	<u>Dispatch Fund</u>	<u>Capital Improvement Fund</u>	<u>Public Properties Corporation Fund</u>	<u>Total Funds</u>
<b>RECEIPTS</b>				
Taxes	\$ 210,827	\$	\$	\$ 2,004,688
Excess Fees				127,520
Licenses and Permits				28,039
Intergovernmental	108,932		970,158	3,495,931
Charges for Services				22,976
Miscellaneous	1,620			410,232
Interest	329	868	48	3,996
Total Receipts	<u>321,708</u>	<u>868</u>	<u>970,206</u>	<u>6,093,382</u>
<b>DISBURSEMENTS</b>				
General Government				852,736
Protection to Persons and Property	333,721			974,212
General Health and Sanitation				301,939
Social Services				7,035
Recreation and Culture				37,950
Transportation Services and Facilities				5,733
Roads				1,818,446
Airports				7,500
Debt Service			967,658	1,031,023
Administration	66,848		2,200	1,127,785
Total Disbursements	<u>400,569</u>		<u>969,858</u>	<u>6,164,359</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(78,861)	868	348	(70,977)
<b>Other Adjustments to Cash (Uses)</b>				
Payroll Revolving Account				8,192
Transfers From Other Funds				644,500
Transfers To Other Funds				(644,500)
Total Other Adjustments to Cash (Uses)				<u>8,192</u>
Net Change in Fund Balances	(78,861)	868	348	(62,785)
Fund Balances - Beginning	196,433	303,063	61,412	1,231,491
Fund Balances - Ending	<u>\$ 117,572</u>	<u>\$ 303,931</u>	<u>\$ 61,760</u>	<u>\$ 1,168,706</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 117,572	\$ 303,931	\$ 61,760	\$ 1,259,269
Less: Outstanding Checks				(35,037)
Less: Outstanding Liabilities				(55,526)
Fund Balance - Ending	<u>\$ 117,572</u>	<u>\$ 303,931</u>	<u>\$ 61,760</u>	<u>\$ 1,168,706</u>

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

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**FLEMING COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2016**

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

**A. Reporting Entity**

The financial statement of Fleming County includes all budgeted and unbudgeted funds under the control of Fleming 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 include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation created under the provisions of KRS 58.180 to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

**B. Basis of Accounting**

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

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

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) October 1, due at discount October 31, 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 source of receipts for this fund is state payments for truck licenses 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.

**FLEMING COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2016**  
**(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.

Forest Fire Fund - The primary purpose of this fund is to account for taxes collected on fire acres and remittance to the state.

Revolving Loan Fund - The primary purpose of this fund is to account for Community Development Block Grant (CDBG) proceeds that were repaid. The county can loan this recaptured money to businesses and they are subject to CDBG guidelines.

Dispatch Fund - The primary purpose of this fund is to account for the dispatch center expenses of the county. The primary sources of receipts for this fund are 911 taxes and surcharges.

Capital Improvement Fund - The primary purpose of this fund is to account for construction and maintenance costs involving county buildings or properties.

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for the financing and construction of major capital facilities. This fund handles the financial activities associated with the construction of the Judicial Center.

**D. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board* and according to the laws of Kentucky as required by the State Local Finance Officer.

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

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

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

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

**E. Fleming County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Fleming 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 Fleming 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 the following, including but not limited to, 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).

GASB Statement No. 72, Fair Value Measurement and Application, became effective in fiscal year 2016 which requires the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

The carrying amount of the following financial instruments approximate fair value because of the short maturity of the instruments: cash equivalents.

**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.

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

**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(4), 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 county 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. As of June 30, 2016, 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 41.240(4). As of June 30, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note 3. Transfers**

	General Fund	Total Transfers In
Road Fund	\$ 246,000	\$ 246,000
Jail Fund	398,500	398,500
Total Transfers Out	<u>\$ 644,500</u>	<u>\$ 644,500</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. Long-term Debt**

**A. First Mortgage Revenue Bonds**

On May 1, 2010, Fleming Public Properties Corporation issued first mortgage revenue bond anticipation notes in the amount of \$13,510,000. The proceeds of this issue were used to provide funding for financing of the Justice Center project. The notes were issued with a variable interest rate of 1 to 4.25 percent, with a retirement date of November 1, 2029. Semi-annual interest payments are due on November 1 and May 1 of each year and principal payments are due annually on November 1 of each year. The principal balance of the agreement was \$10,040,000 as of June 30, 2016. Future principal and interest payments are as follows:

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

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

**A. First Mortgage Revenue Bonds (Continued)**

Fiscal Year Ended June 30	Principal	Scheduled Interest and Fees
2017	\$ 590,000	\$ 382,258
2018	605,000	364,030
2019	625,000	344,340
2020	650,000	322,653
2021	670,000	298,883
2022-2026	3,780,000	1,068,275
2027-2030	3,120,000	245,399
Totals	<u>\$ 10,040,000</u>	<u>\$ 3,025,838</u>

**B. Capital Lease – Dump Truck**

On February 5, 2014, Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the purchase of a truck. The agreement requires monthly interest payments beginning March 20, 2014 and principal payments beginning August 20, 2014 with a 3.95% interest rate to be paid in full February 2018. As of June 30, 2016, the principal balance on this lease agreement was \$86,478. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2017	\$ 43,126	\$ 2,423
2018	43,352	714
Totals	<u>\$ 86,478</u>	<u>\$ 3,137</u>

**C. Capital Lease – Sheriff’s Vehicles**

On February 21, 2014, Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the purchase of vehicles for the Sheriff’s office. The agreement requires monthly interest and principal payments beginning March 20, 2014 with a 3.95% interest rate to be paid in full February 2018. The Sheriff’s Office makes the debt service payments. As of June 30, 2016, the principal balance on this lease agreement was \$26,057. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2017	\$ 15,470	\$ 751
2018	10,587	157
Totals	<u>\$ 26,057</u>	<u>\$ 908</u>



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

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

**D. Long-term Debt Maturity in the Aggregate**

Fiscal Year Ended June 30	Principal	Scheduled Interest and Fees
2017	\$ 648,596	\$ 385,432
2018	658,939	364,901
2019	625,000	344,340
2020	650,000	322,653
2021	670,000	298,883
2022-2026	3,780,000	1,068,275
2027-2030	3,120,000	245,399
Totals	<u>\$ 10,152,535</u>	<u>\$ 3,029,883</u>

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

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 10,610,000	\$	\$ 570,000	\$ 10,040,000	\$ 590,000
Financing Obligations	170,426		57,891	112,535	58,596
Total Long-term Debt	<u>\$ 10,780,426</u>	<u>\$ 0</u>	<u>\$ 627,891</u>	<u>\$ 10,152,535</u>	<u>\$ 648,596</u>

**Note 5. Employee Retirement System**

**A. Plan Description**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. 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 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 the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.95 percent.

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

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

**A. Plan Description (Continued)**

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 5% (nonhazardous) and 8% (hazardous) of their annual creditable compensation and 1% 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 4% (nonhazardous) and 7.5% (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2014 was \$343,746, FY 2015 was \$313,924, and FY 2016 was \$308,211.

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 (members 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 fifteen 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

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

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

**A. Plan Description (Continued)**

adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/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 February 24, 2000, Fleming 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 permits 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 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. Insurance**

For the fiscal year ended June 30, 2016, Fleming County 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 a 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 8. Related Party Transactions**

Magistrate James Smoot's brother occasionally performs emergency non-routine maintenance at the courthouse. The total spent during fiscal year 2016 was \$3,275.

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

**Note 9. Subsequent Review**

On September 29, 2016, Fleming County Public Properties Corporation (PPC), an agency and instrumentality of Fleming County Fiscal Court, issued \$6,980,000 in Refunding Revenue Bonds (Courthouse Facilities Project), Series 2016. These bonds mature in varying amounts from \$65,000 to \$910,000 on November 1 of each year from 2019 through 2026. Proceeds of the bonds were used to refund the First Mortgage Revenue Bonds, Series 2009, which was for the purpose of acquisition, construction, installation, and equipping of the Fleming County Judicial Center. Interest is payable semi-annually on May 1 and November 1 at rates ranging from 2.0% to 2.125% and principal payments are due annually on November 1 of each year.

Subsequent events have been evaluated through January 24, 2017, which is the date the financial statements were available to be issued.

**Note 10. Payroll Revolving Account**

The reconciled balance of the Payroll Revolving Account as of June 30, 2016, was added to the General Fund cash balance for financing reporting purposes.

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

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

**FLEMING 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	\$ 1,528,000	\$ 1,692,966	\$ 1,792,616	\$ 99,650
Excess Fees	110,000	126,773	127,520	747
Licenses and Permits	25,700	25,700	28,039	2,339
Intergovernmental	299,736	577,186	558,043	(19,143)
Charges for Services	50	50	100	50
Miscellaneous	313,300	349,649	379,563	29,914
Interest	750	750	1,376	626
Total Receipts	<u>2,277,536</u>	<u>2,773,074</u>	<u>2,887,257</u>	<u>114,183</u>
<b>DISBURSEMENTS</b>				
General Government	918,312	957,400	838,256	119,144
Protection to Persons and Property	107,719	140,582	126,363	14,219
General Health and Sanitation	38,700	319,476	301,939	17,537
Social Services	9,500	9,500	7,035	2,465
Recreation and Culture	41,313	44,263	37,950	6,313
Debt Service		16,343	16,343	0
Administration	947,124	1,156,285	819,048	337,237
Total Disbursements	<u>2,062,668</u>	<u>2,643,849</u>	<u>2,146,934</u>	<u>496,915</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	214,868	129,225	740,323	611,098
<b>Other Adjustments to Cash (Uses)</b>				
Payroll Revolving Account			8,192	8,192
Transfers To Other Funds	(589,868)	(589,868)	(644,500)	(54,632)
Total Other Adjustments to Cash (Uses)	<u>(589,868)</u>	<u>(589,868)</u>	<u>(636,308)</u>	<u>(46,440)</u>
Net Change in Fund Balances	(375,000)	(460,643)	104,015	564,658
Fund Balances - Beginning	<u>375,000</u>	<u>460,643</u>	<u>460,643</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 564,658</u>	<u>\$ 564,658</u>

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

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,520,502	\$ 1,885,553	\$ 1,669,184	\$ (216,369)
Miscellaneous	9,500	23,152	28,791	5,639
Interest	450	450	1,093	643
Total Receipts	<u>1,530,452</u>	<u>1,909,155</u>	<u>1,699,068</u>	<u>(210,087)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property		854	854	0
Transportation Facilities and Services	5,000	5,733	5,733	0
Roads	1,585,424	2,058,832	1,818,446	240,386
Administration	295,028	221,790	213,623	8,167
Total Disbursements	<u>1,885,452</u>	<u>2,287,209</u>	<u>2,038,656</u>	<u>248,553</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other				
Adjustments to Cash (Uses)	(355,000)	(378,054)	(339,588)	38,466
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>280,000</u>	<u>280,000</u>	<u>246,000</u>	<u>(34,000)</u>
Total Other Adjustments to Cash (Uses)	<u>280,000</u>	<u>280,000</u>	<u>246,000</u>	<u>(34,000)</u>
Net Change in Fund Balances	(75,000)	(98,054)	(93,588)	4,466
Fund Balances - Beginning	<u>75,000</u>	<u>98,054</u>	<u>98,054</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,466</u>	<u>\$ 4,466</u>

**FLEMING 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	\$ 92,600	\$ 113,957	\$ 117,148	\$ 3,191
Charges for Services	20,000	20,000	22,876	2,876
Miscellaneous	100	100	258	158
Interest	75	75		(75)
Total Receipts	<u>112,775</u>	<u>134,132</u>	<u>140,282</u>	<u>6,150</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	507,409	535,195	513,274	21,921
Administration	45,735	41,483	26,066	15,417
Total Disbursements	<u>553,144</u>	<u>576,678</u>	<u>539,340</u>	<u>37,338</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(440,369)	(442,546)	(399,058)	43,488
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	439,869	439,869	398,500	(41,369)
Total Other Adjustments to Cash (Uses)	<u>439,869</u>	<u>439,869</u>	<u>398,500</u>	<u>(41,369)</u>
Net Change in Fund Balances	(500)	(2,677)	(558)	2,119
Fund Balances - Beginning	500	2,677	2,677	0
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,119</u>	<u>\$ 2,119</u>



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

<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 35,000	\$ 72,416	\$ 72,466	\$ 50
Miscellaneous	50	50		(50)
Interest	80	80	132	52
Total Receipts	<u>35,130</u>	<u>72,546</u>	<u>72,598</u>	<u>52</u>
<b>DISBURSEMENTS</b>				
Debt Service	47,023	47,023	47,022	1
Administration	31,307	68,723		68,723
Total Disbursements	<u>78,330</u>	<u>115,746</u>	<u>47,022</u>	<u>68,724</u>
Net Change in Fund Balances	(43,200)	(43,200)	25,576	68,776
Fund Balances - Beginning	<u>43,200</u>	<u>43,200</u>	<u>43,229</u>	<u>29</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 68,805</u>	<u>\$ 68,805</u>

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

	<b>FOREST FIRE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 1,230	\$ 1,230	\$ 1,245	\$ 15
Charges for Services	100	100		(100)
Total Receipts	<u>1,330</u>	<u>1,330</u>	<u>1,245</u>	<u>(85)</u>
<b>DISBURSEMENTS</b>				
General Government	1,480	1,480	1,480	0
Administration	300	300		300
Total Disbursements	<u>1,780</u>	<u>1,780</u>	<u>1,480</u>	<u>300</u>
Net Change in Fund Balances	(450)	(450)	(235)	215
Fund Balances - Beginning	<u>450</u>	<u>450</u>	<u>506</u>	<u>56</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 271</u>	<u>\$ 271</u>

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

	<b>REVOLVING LOAN FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Miscellaneous	\$ 50	\$ 50	\$	\$ (50)
Interest	125	125	150	25
Total Receipts	<u>175</u>	<u>175</u>	150	<u>(25)</u>
<b>DISBURSEMENTS</b>				
General Government	8,000	13,000	13,000	0
Airports	7,500	7,500	7,500	0
Administration	49,675	44,675		44,675
Total Disbursements	<u>65,175</u>	<u>65,175</u>	<u>20,500</u>	<u>44,675</u>
Net Change in Fund Balances	(65,000)	(65,000)	(20,350)	44,650
Fund Balances - Beginning	<u>65,000</u>	<u>65,000</u>	<u>65,474</u>	<u>474</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 45,124</u>	<u>\$ 45,124</u>

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

	<b>DISPATCH FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 204,000	\$ 204,000	\$ 210,827	\$ 6,827
Intergovernmental	100,000	100,000	108,932	8,932
Miscellaneous	1,000	1,000	1,620	620
Interest	600	600	329	(271)
Total Receipts	<u>305,600</u>	<u>305,600</u>	<u>321,708</u>	<u>16,108</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	373,417	378,775	333,721	45,054
Administration	112,183	123,258	66,848	56,410
Total Disbursements	<u>485,600</u>	<u>502,033</u>	<u>400,569</u>	<u>101,464</u>
Net Change in Fund Balances	(180,000)	(196,433)	(78,861)	117,572
Fund Balances - Beginning	<u>180,000</u>	<u>196,433</u>	<u>196,433</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 117,572</u>	<u>\$ 117,572</u>

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

<b>CAPITAL IMPROVEMENTS FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Interest	\$ 500	\$ 500	\$ 868	\$ 368
Total Receipts	500	500	868	368
<b>DISBURSEMENTS</b>				
General Government	1,000	1,000		1,000
Capital Projects	10,000	10,000		10,000
Administration	159,500	162,564		162,564
Total Disbursements	170,500	173,564		173,564
Excess (Deficiency) of Receipts Over Disbursements Before Other				
Adjustments to Cash (Uses)	(170,000)	(173,064)	868	173,932
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds				
Transfers To Other Funds	(130,000)	(130,000)		130,000
Total Other Adjustments to Cash (Uses)	(130,000)	(130,000)		130,000
Net Change in Fund Balances	(300,000)	(303,064)	868	303,932
Fund Balances - Beginning	300,000	303,064	303,063	(1)
Fund Balances - Ending	\$ 0	\$ 0	\$ 303,931	\$ 303,931

**FLEMING COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION – BUDGETARY COMPARISON SCHEDULES**

**June 30, 2016**

**Note 1. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board* and according to the laws of Kentucky as required by the State Local Finance Officer.

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

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

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

**FLEMING 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	Additions	Deletions	Ending Balance
Land	\$ 2,066,984	\$	\$	\$ 2,066,984
Land Improvements	57,215			57,215
Buildings	13,699,291			13,699,291
Vehicles	1,008,432	17,250		1,025,682
Equipment	1,419,974	49,500		1,469,474
Infrastructure	5,995,712	738,176		6,733,888
 Total Capital Assets	 <u>\$ 24,247,608</u>	 <u>\$ 804,926</u>	 <u>\$ 0</u>	 <u>\$ 25,052,534</u>



**FLEMING 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	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

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

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The Honorable Larry Foxworthy, Fleming County Judge/Executive  
Members of the Fleming County Fiscal Court

## **Independent Auditors' 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***

We have audited, in accordance with the 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 Fleming County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement, which collectively comprise Fleming County Fiscal Court's basic financial statement and have issued our report thereon dated January 24, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered Fleming 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 Fleming County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of Fleming 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying comment and recommendation as item 2016-001 that we consider to be a material weakness.

**Independent Auditors' 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*  
(Continued)**

**Compliance and Other Matters**

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

**Fleming County Fiscal Court's Response to the Finding**

Fleming County Fiscal Court's response to the finding identified in our audit is described in the accompanying comment and recommendation. Fleming County Fiscal Court's response was not subjected to the auditing procedures applied in the audit of the financial statement and accordingly, we express no opinion on it.

**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.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

January 24, 2017

**FLEMING COUNTY  
COMMENT AND RECOMMENDATION**

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

**FLEMING COUNTY  
COMMENT AND RECOMMENDATION**

**June 30, 2016**

**MATERIAL WEAKNESS/NONCOMPLIANCE**

**2016-001 The Fiscal Court Lacks Adequate Internal Controls Over Payroll**

Condition: During our testing of payroll, we tested fourteen (14) employees and we noted the following:

- One (1) employee did not have a time sheet.
- Per fiscal court approved salary schedule, jail transport employees are paid \$3.85 per hour while on-call and \$10 per hour for transport. One employee was paid on-call wages for 21 hours recorded on their timesheet while physically transporting prisoners.
- One employee recorded overtime on their time sheet, but no overtime was paid on their paystub. The timesheet was initialed by a supervisor. Per the Treasurer, no one is approved for overtime. The approval indicated is just for the time, not overtime.
- The Jailer appears to have been overpaid by \$1,038 for 2015.
- The Payroll Revolving Account reconciled to \$8,192 rather than \$0.

Criteria:

- Pursuant to KRS 337.320 (1), “Every employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires.”
- Pursuant to KRS 337.275 “Except as may otherwise be provided by this chapter, every employer shall pay to each of his employees’ wages at a rate of not less ... than seven dollars and twenty-five cents (\$7.25) an hour beginning July 1, 2009.”
- Pursuant to 803 KAR 1:065 Section 2. (1) General. Work not requested but suffered or permitted to work time. For example, an employee may voluntarily continue to work at the end of the shift, he may be a pieceworker, he may desire to finish an assigned task or he may wish to correct errors, paste work tickets, and prepare time reports or other records. The reason is immaterial. The employer knows or has reason to believe that he is continuing to work and the time is working time. (3) Duty of management. In all such cases it is the duty of the management to exercise its control and see that the work is not performed if it does not want it to be performed. It cannot sit back and accept the benefits without compensating for them. The mere promulgation of a rule against such work is not enough. Management has the power to enforce the rule and must make every effort to do so.
- Pursuant to KRS 337.285 “(1) No employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess for forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed.
- Pursuant to KRS 64.530 (4), In the case of county officers elected by popular vote and the county attorney, in the event the fiscal court provides him a salary, the monthly compensation of the officer and his deputies and assistants shall be fixed by the fiscal court, consistent with the provisions of subsection (3) of this section, not later than the first Monday in May in the year in which the officers are elected, and the compensation of the officer shall not be changed during the term but the compensation of his deputies or assistants may be reviewed and adjusted by the fiscal court not later than the first Monday in May of any successive year upon the written request of the officer.

- A revolving account is a clearing account where all funds deposited are paid out and the balance can be reconciled to zero at any given time.

Effect:

- Employees are being paid without presenting a time sheet as required by Kentucky Revised Statutes.
- Employees should be paid at least minimum wage for hours actually worked as required by Kentucky Administrative Regulations.
- Overtime should be paid for hours worked over 40 hours per week as required by Kentucky Revised Statutes.
- The Jailer is being paid more than permitted by Kentucky Revised Statutes.
- The payroll revolving account did not reconcile to zero.

Cause:

- Lack of internal controls over payroll processing.

Recommendation: We recommend the Fiscal Court reevaluate their controls over payroll to determine the controls that would best address the findings listed under the condition section above. The Fiscal Court may determine the controls listed above under the criteria section are adequate or may decide to implement other controls to eliminate such internal control weaknesses in the future.

*County Judge/Executive's Response:*

*New Controls And Procedures will be put in place immediately.*

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

**FLEMING COUNTY FISCAL COURT**

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

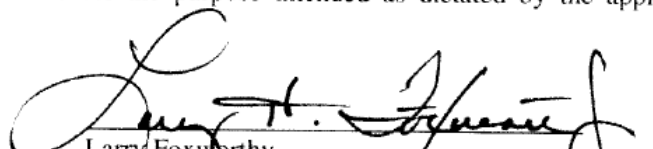
Appendix A

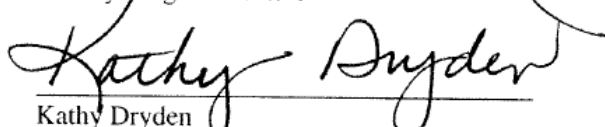


CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
FLEMING COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

Fleming 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.

  
Larry Foxworthy  
County Judge/Executive

  
Kathy Dryden  
County Treasurer