

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

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



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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 Zach Weinberg, Knott County Judge/Executive
Members of the Knott County Fiscal Court

The enclosed report prepared by RFH, PLLC presents the financial statement of Knott County, Kentucky, for the year ended June 30, 2016.

We engaged RFH, PLLC to perform the audit of this financial statement. We worked closely with the firm during our report review process; RFH, PLLC evaluated the Knott County Fiscal Court's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE KNOTT COUNTY FISCAL COURT

June 30, 2016

RFH, PLLC has completed the audit of the Knott County Fiscal Court for fiscal year ended June 30, 2016.

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

Financial Condition:

The Knott County Fiscal Court had total receipts of \$8,362,662 and disbursements of \$8,712,098 in fiscal year 2016. This resulted in a total ending fund balance of \$1,219,355, which is a decrease of \$349,436 from the prior year.

Findings:

- 2016-001 The Knott County Fiscal Court Did Not Properly Handle Disbursement Transactions
- 2016-002 The Treasurer Did Not Prepare An Accurate Liability Schedule
- 2016-003 Fund Transfers Were Not Approved By The Fiscal Court
- 2016-004 The Fiscal Court Lacks Adequate Internal Controls At The Knott County Sportsplex

Deposits:

The fiscal court deposits were insured and collateralized by bank securities or bonds.

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CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
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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 Knott County, Kentucky, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Knott 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 more fully in Note 1 of the financial statement, the financial statement is prepared by Knott 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 Knott 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 Knott 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 Knott 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 December 20, 2016, on our consideration of the Knott 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 Knott County Fiscal Court's internal control over financial reporting and compliance.

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

- 2016-001 The Knott County Fiscal Court Did Not Properly Handle Disbursement Transactions
- 2016-002 The Treasurer Did Not Prepare An Accurate Liability Schedule
- 2016-003 Fund Transfers Were Not Approved By The Fiscal Court
- 2016-004 The Fiscal Court Lacks Adequate Internal Controls At The Knott County Sportsplex

RFH

RFH, PLLC
Lexington, Kentucky
December 20, 2016

KNOTT COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Zachary Weinberg	County Judge/Executive
Jeff Dobson	Magistrate
Jamie Mosley	Magistrate
Calvin Waddles	Magistrate
Avery Shurm	Magistrate

Other Elected Officials:

Timothy Bates	County Attorney
Ricky Prater	Jailer
Kennith Gayheart	County Clerk
Judy Collins	Circuit Court Clerk
Dale Richardson	Sheriff
Edward Slone	Property Valuation Administrator
William J Blair	Coroner

Appointed Personnel:

Kevin Jacobs	County Treasurer
Debra Moore	Chief Financial Officer

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

For The Year Ended June 30, 2016

KNOTT COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 1,700,581	\$	\$	\$
In Lieu Tax Payments	962			
Excess Fees	85,826			
Intergovernmental	387,592	2,035,153	102,421	1,335,260
Charges for Services	138,538			22,190
Miscellaneous	220,400	2,882	6,749	119,415
Interest	2,237	2,288	216	819
Total Receipts	<u>2,536,136</u>	<u>2,040,323</u>	<u>109,386</u>	<u>1,477,684</u>
DISBURSEMENTS				
Current:				
General Government	1,039,605			27,128
Protection to Persons and Property	2,043		414,960	253,656
General Health and Sanitation				198,835
Social Services	2,050			223,829
Recreation and Culture				451,650
Roads		1,740,455		75,807
Debt Service	3,172	320,729		
Capital Projects		84,677		
Administration	966,417	223,125	97,268	252,691
Total Disbursements	<u>2,013,287</u>	<u>2,368,986</u>	<u>512,228</u>	<u>1,483,596</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	522,849	(328,663)	(402,842)	(5,912)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	113,260	518,618	365,000	236,542
Transfers To Other Funds	(811,995)	(193,260)		(379,918)
Total Other Adjustments to Cash (Uses)	<u>(698,735)</u>	<u>325,358</u>	<u>365,000</u>	<u>(143,376)</u>
Net Change in Fund Balances	(175,886)	(3,305)	(37,842)	(149,288)
Fund Balances - Beginning	393,046	245,585	38,246	152,063
Fund Balances - Ending	<u>\$ 217,160</u>	<u>\$ 242,280</u>	<u>\$ 404</u>	<u>\$ 2,775</u>
Composition of Fund Balance				
Bank Balances	\$ 251,759	\$ 269,006	\$ 541	\$ 8,707
Add: Deposits in Transit				
Less: Outstanding Checks	(34,599)	(26,726)	(137)	(5,932)
Fund Balances - Ending	<u>\$ 217,160</u>	<u>\$ 242,280</u>	<u>\$ 404</u>	<u>\$ 2,775</u>

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

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

Budgeted Funds							
State Grants Fund	Federal Grants Fund	Emergency Management Fund	Forestry Fund	Sportsplex Fund	E-911 Fund	Debt Service Fund	Total Funds
\$	\$	\$	\$ 3,846	\$	\$ 97,089	\$	\$ 1,801,516
							962
							85,826
830,504	301,500	148,644				478,700	5,619,774
				326,054			486,782
6,068				4,838			360,352
661	2	277	150	167	133	500	7,450
<u>837,233</u>	<u>301,502</u>	<u>148,921</u>	<u>3,996</u>	<u>331,059</u>	<u>97,222</u>	<u>479,200</u>	<u>8,362,662</u>
12							1,066,745
61,551			2,118		88,414		822,742
12,677							211,512
25,356							251,235
65,277				463,120			980,047
							1,816,262
						1,214,972	1,538,873
46,473	301,500						432,650
		24		52,507			1,592,032
<u>211,346</u>	<u>301,500</u>	<u>24</u>	<u>2,118</u>	<u>515,627</u>	<u>88,414</u>	<u>1,214,972</u>	<u>8,712,098</u>
625,887	2	148,897	1,878	(184,568)	8,808	(735,772)	(349,436)
176,995				165,000		725,215	2,300,630
(755,757)		(154,700)	(5,000)				(2,300,630)
<u>(578,762)</u>		<u>(154,700)</u>	<u>(5,000)</u>	<u>165,000</u>		<u>725,215</u>	
47,125	2	(5,803)	(3,122)	(19,568)	8,808	(10,557)	(349,436)
20,629	296	19,760	21,076	23,508	18,799	635,783	1,568,791
<u>\$ 67,754</u>	<u>\$ 298</u>	<u>\$ 13,957</u>	<u>\$ 17,954</u>	<u>\$ 3,940</u>	<u>\$ 27,607</u>	<u>\$ 625,226</u>	<u>\$ 1,219,355</u>
\$ 67,754	\$ 298	\$ 13,957	\$ 17,954	\$ 7,532	\$ 27,607	\$ 625,226	\$ 1,290,341
				508			508
				(4,100)			(71,494)
<u>\$ 67,754</u>	<u>\$ 298</u>	<u>\$ 13,957</u>	<u>\$ 17,954</u>	<u>\$ 3,940</u>	<u>\$ 27,607</u>	<u>\$ 625,226</u>	<u>\$ 1,219,355</u>

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

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TO THE FINANCIAL STATEMENT**

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KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Knott County includes all budgeted funds under the control of the Knott 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. The Knott County Fiscal Court does not maintain any unbudgeted funds.

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments 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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

State Grants Fund - The primary purpose of this fund is to account for the grants that are received from various state agencies earmarked for specific projects. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Federal Grants Fund - The primary purpose of this fund is to account for the grants that are received from the federal government earmarked for specific projects. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Emergency Management Fund - The primary purpose of this fund is to account for the grants that are received from various state and federal agencies earmarked for disaster related projects. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Forestry Fund - The primary purpose of this fund is to account for the taxes received and the related disbursements to prevent forest fires.

Sportsplex Fund - The primary purpose of this fund is to account for the revenue and disbursements of the Sportsplex. It is primarily funded through charges for service and transfers from other funds.

E-911 Fund - The primary purpose of this fund is to account for the tax revenue and disbursements related to maintaining the local E-911 service.

Debt Service Fund - The purpose of this fund is to record the youth center general obligation bond issue and the justice center corporation bond issue. Debt service funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

E. Knott County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Knott 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 Knott County Fiscal Court.

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

H. Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Based upon these criteria, the Kentucky Regional Jail is considered a joint venture of the Knott County Fiscal Court and the Perry County Fiscal Court.

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

Note 1. Summary of Significant Accounting Policies (Continued)

H. Joint Ventures (Continued)

Kentucky River Regional Jail

On June 29, 2005, Knott and Perry Counties (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the maintenance and financing of the Kentucky River Regional Jail. Pursuant to this interlocal agreement, Perry County financed the acquisition and construction of the Kentucky River Regional Jail. On November 1, 2007, the Perry County Fiscal Court issued \$4,975,000 of General Obligation Bonds to refund the Perry County Detention Center Bond from December 2001.

Pursuant to the lease and sublease, each participating county covenants to meet its proportionate share of the debt service requirements on the bond as follows (the “proportionate share” or “use allowance”): 75% for Perry County and 25% for Knott County.

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 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. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government’s deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 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	Road Fund	LGEA Fund	State Grants Fund	EMA Fund	Forestry Fund	Total Transfers In
General Fund	\$	\$ 113,260		\$			\$ 113,260
Road Fund	85,000		299,918		\$ 128,700	\$ 5,000	518,618
Jail Fund	365,000						365,000
LGEA Fund	100,000	80,000		30,542	26,000		236,542
State Grants Fund	176,995						176,995
Sportsplex Fund	85,000		80,000				165,000
Debt Service Fund				725,215			725,215
Total Transfers Out	<u>\$ 811,995</u>	<u>\$ 193,260</u>	<u>\$ 379,918</u>	<u>\$ 755,757</u>	<u>\$ 154,700</u>	<u>\$ 5,000</u>	<u>\$ 2,300,630</u>

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

Note 3. Transfers (Continued)

Reason for transfers:

The purpose for transfers is 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. General Obligation Road Bonds, Series 2002

The Knott County, Kentucky Justice Center Corporation issued \$4,085,000 First Mortgage Refunding Revenue bonds dated October 19, 2011. The bonds are payable in annual installments with the interest payable in semi-annual installments, beginning April 1, 2012. Interest accrues at rates of one percent to 3.25 percent. As of June 30, 2016, the principal balance outstanding was \$2,995,000. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest And Other Fees
2017	\$ 400,000	\$ 75,750
2018	405,000	67,700
2019	415,000	59,500
2020	425,000	49,506
2021	435,000	37,138
2022-2023	915,000	31,419
Totals	<u>\$ 2,995,000</u>	<u>\$ 321,013</u>

B. Financing Obligation - Long Term Lease

The Knott County Fiscal Court received lease proceeds in the amount of \$6,620,000 to pay off two general obligation bonds and one financing obligation. Lease principal payments are due in annual installments with the interest payable in semi-annual installments, beginning December 20, 2015. Interest accrues at rates of two percent to three percent. As of June 30, 2016, the remaining principal balance outstanding was \$6,300,000. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 325,000	\$ 198,700
2018	570,000	186,087
2019	465,000	169,138
2020	480,000	153,800
2021	500,000	137,900
2022-2028	3,960,000	497,425
Totals	<u>\$ 6,300,000</u>	<u>\$ 1,343,050</u>

KNOTT 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
General Obligations Bonds	\$ 3,390,000	\$ 0	\$ 395,000	\$ 2,995,000	\$ 400,000
Financing Obligations	6,620,000		320,000	6,300,000	325,000
Total Long-term Debt	<u>\$ 10,010,000</u>	<u>\$ 0</u>	<u>\$ 715,000</u>	<u>\$ 9,295,000</u>	<u>\$ 725,000</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.

The county's contribution for FY 2014 was \$460,546, FY 2015 was \$451,021, and FY 2016 was \$430,250.

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

Note 5. Employee Retirement System (Continued)

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:

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

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

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.

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.

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

Note 6. Deferred Compensation

The Knott 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 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, Knott 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 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. Subsequent Events

The county has evaluated and considered the need to recognize or disclose subsequent events through December 20, 2016, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2016, have not been evaluated by the county.

KNOTT COUNTY
SUPPLEMENTARY SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016

KNOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,397,400	\$ 1,871,800	\$ 1,700,581	\$ (171,219)
In Lieu Tax Payments	12,500	12,500	962	(11,538)
Excess Fees	31,000	88,058	85,826	(2,232)
Intergovernmental	346,630	401,885	387,592	(14,293)
Charges for Services	180,000	180,000	138,538	(41,462)
Miscellaneous	258,000	308,500	220,400	(88,100)
Interest	1,100	2,350	2,237	(113)
Total Receipts	<u>2,226,630</u>	<u>2,865,093</u>	<u>2,536,136</u>	<u>(328,957)</u>
DISBURSEMENTS				
General Government	1,038,942	1,038,942	1,039,605	(663)
Protection to Persons and Property	2,300	2,300	2,043	257
Social Services	4,000	4,000	2,050	1,950
Debt Service	3,172	3,172	3,172	
Administration	1,248,330	1,559,580	966,417	593,163
Total Disbursements	<u>2,296,744</u>	<u>2,607,994</u>	<u>2,013,287</u>	<u>594,707</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(70,114)</u>	<u>257,099</u>	<u>522,849</u>	<u>265,750</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	205,714	205,714	113,260	(92,454)
Transfers To Other Funds	(175,600)	(855,860)	(811,995)	43,865
Total Other Adjustments to Cash (Uses)	<u>30,114</u>	<u>(650,146)</u>	<u>(698,735)</u>	<u>(48,589)</u>
Net Change in Fund Balances	(40,000)	(393,047)	(175,886)	217,161
Fund Balances - Beginning	40,000	393,047	393,046	(1)
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 217,160</u>	<u>\$ 217,160</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,301,085	\$ 2,310,085	\$ 2,035,153	\$ (274,932)
Miscellaneous	11,000	11,000	2,882	(8,118)
Interest	3,500	3,500	2,288	(1,212)
Total Receipts	<u>2,315,585</u>	<u>2,324,585</u>	<u>2,040,323</u>	<u>(284,262)</u>
DISBURSEMENTS				
Roads	1,834,750	1,834,750	1,740,455	94,295
Debt Service	260,010	260,010	320,729	(60,719)
Capital Projects	125,000	125,000	84,677	40,323
Administration	319,111	708,696	223,125	485,571
Total Disbursements	<u>2,538,871</u>	<u>2,928,456</u>	<u>2,368,986</u>	<u>559,470</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(223,286)</u>	<u>(603,871)</u>	<u>(328,663)</u>	<u>275,208</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	204,000	564,000	518,618	(45,382)
Transfers To Other Funds	<u>(205,714)</u>	<u>(205,714)</u>	<u>(193,260)</u>	<u>12,454</u>
Total Other Adjustments to Cash (Uses)	<u>(1,714)</u>	<u>358,286</u>	<u>325,358</u>	<u>(32,928)</u>
Net Change in Fund Balances	(225,000)	(245,585)	(3,305)	242,280
Fund Balances - Beginning	225,000	245,585	245,585	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 242,280</u>	<u>\$ 242,280</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 117,200	\$ 117,200	\$ 102,421	\$ (14,779)
Miscellaneous	1,000	7,500	6,749	(751)
Interest	250	250	216	(34)
Total Receipts	<u>118,450</u>	<u>124,950</u>	<u>109,386</u>	<u>(15,564)</u>
DISBURSEMENTS				
Protection to Persons and Property	617,550	617,550	414,960	202,590
Administration	106,800	141,547	97,268	44,279
Total Disbursements	<u>724,350</u>	<u>759,097</u>	<u>512,228</u>	<u>246,869</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(605,900)</u>	<u>(634,147)</u>	<u>(402,842)</u>	<u>231,305</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	595,900	595,900	365,000	(230,900)
Total Other Adjustments to Cash (Uses)	<u>595,900</u>	<u>595,900</u>	<u>365,000</u>	<u>(230,900)</u>
Net Change in Fund Balances	(10,000)	(38,247)	(37,842)	405
Fund Balances - Beginning	10,000	38,247	38,246	(1)
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 404</u>	<u>\$ 404</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 2,180,000	\$ 2,180,000	\$ 1,335,260	\$ (844,740)
Charges for Services	34,000	34,000	22,190	(11,810)
Miscellaneous	53,400	137,900	119,415	(18,485)
Interest	780	880	819	(61)
Total Receipts	<u>2,268,180</u>	<u>2,352,780</u>	<u>1,477,684</u>	<u>(875,096)</u>
DISBURSEMENTS				
General Government	30,350	30,350	27,128	3,222
Protection to Persons and Property	272,376	272,376	253,656	18,720
General Health and Sanitation	216,500	216,500	198,835	17,665
Social Services	182,400	182,400	223,829	(41,429)
Recreation and Culture	442,750	442,750	451,650	(8,900)
Roads	98,500	93,768	75,807	17,961
Debt Service	76,100	76,100		76,100
Administration	424,904	641,300	252,691	388,609
Total Disbursements	<u>1,743,880</u>	<u>1,955,544</u>	<u>1,483,596</u>	<u>471,948</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>524,300</u>	<u>397,236</u>	<u>(5,912)</u>	<u>(403,148)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds		230,000	236,542	(6,542)
Transfers To Other Funds	<u>(749,300)</u>	<u>(779,300)</u>	<u>(379,918)</u>	<u>(399,382)</u>
Total Other Adjustments to Cash (Uses)	<u>(749,300)</u>	<u>(549,300)</u>	<u>(143,376)</u>	<u>(405,924)</u>
Net Change in Fund Balances	(225,000)	(152,064)	(149,288)	2,776
Fund Balances - Beginning	225,000	152,064	152,063	1
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 2,775</u>	<u>\$ 2,777</u>

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

	STATE GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,600,000	\$ 1,636,750	\$ 830,504	\$ (806,246)
Miscellaneous		6,100	6,068	(32)
Interest	1,500	1,500	661	(839)
Total Receipts	<u>1,601,500</u>	<u>1,644,350</u>	<u>837,233</u>	<u>(807,117)</u>
DISBURSEMENTS				
General Government	1,000	1,000	12	988
Protection to Persons and Property	21,000	21,000	61,551	(40,551)
General Health and Sanitation	220,000	220,000	12,677	207,323
Social Services	55,000	55,000	25,356	29,644
Recreation and Culture	230,000	230,000	65,277	164,723
Capital Projects	50,000	50,000	46,473	3,527
Administration	304,125	527,864		527,864
Total Disbursements	<u>881,125</u>	<u>1,104,864</u>	<u>211,346</u>	<u>893,518</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>720,375</u>	<u>539,486</u>	<u>625,887</u>	<u>86,401</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds		180,260	176,995	3,265
Transfers To Other Funds	(740,375)	(740,375)	(755,757)	15,382
Total Other Adjustments to Cash (Uses)	<u>(740,375)</u>	<u>(560,115)</u>	<u>(578,762)</u>	<u>18,647</u>
Net Change in Fund Balances	(20,000)	(20,629)	47,125	67,754
Fund Balances - Beginning	20,000	20,629	20,629	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 67,754</u>	<u>\$ 67,754</u>

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

	FEDERAL GRANTS FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 330,000	\$ 1,330,000	\$ 301,500	\$ (1,028,500)
Interest	3	4	2	(2)
Total Receipts	<u>330,003</u>	<u>1,330,004</u>	<u>301,502</u>	<u>(1,028,502)</u>
DISBURSEMENTS				
General Health and Sanitation	30,000	30,000	301,500	(271,500)
Capital Projects	300,000	300,000		300,000
Administration	299	1,000,300		1,000,300
Total Disbursements	<u>330,299</u>	<u>1,330,300</u>	<u>301,500</u>	<u>1,028,800</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(296)</u>	<u>(296)</u>	<u>2</u>	<u>298</u>
Net Change in Fund Balances	(296)	(296)	2	298
Fund Balances - Beginning	296	296	296	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 298</u>	<u>\$ 298</u>

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

EMERGENCY MANAGEMENT FUND

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 35,000	\$ 190,000	\$ 148,644	\$ (41,356)
Interest	150	300	277	(23)
Total Receipts	<u>35,150</u>	<u>190,300</u>	<u>148,921</u>	<u>(41,379)</u>
DISBURSEMENTS				
Roads	30,000	30,000		30,000
Administration	7,950	25,060	24	25,036
Total Disbursements	<u>37,950</u>	<u>55,060</u>	<u>24</u>	<u>55,036</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,800)</u>	<u>135,240</u>	<u>148,897</u>	<u>13,657</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds		(155,000)	(154,700)	300
Total Other Adjustments to Cash (Uses)		<u>(155,000)</u>	<u>(154,700)</u>	<u>300</u>
Net Change in Fund Balances	(2,800)	(19,760)	(5,803)	13,957
Fund Balances - Beginning	2,800	19,760	19,760	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 13,957</u>	<u>\$ 13,957</u>

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

	FORESTRY FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,650	\$ 4,500	\$ 3,846	\$ (654)
Interest	200	200	150	(50)
Total Receipts	<u>1,850</u>	<u>4,700</u>	<u>3,996</u>	<u>(704)</u>
DISBURSEMENTS				
General Government				
Protection to Persons and Property	2,500	2,500	2,118	382
Administration	26,350	18,276		18,276
Total Disbursements	<u>28,850</u>	<u>20,776</u>	<u>2,118</u>	<u>18,658</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(27,000)</u>	<u>(16,076)</u>	<u>1,878</u>	<u>17,954</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds		(5,000)	(5,000)	
Total Other Adjustments to Cash (Uses)		<u>(5,000)</u>	<u>(5,000)</u>	
Net Change in Fund Balances	(27,000)	(21,076)	(3,122)	17,954
Fund Balances - Beginning	27,000	21,076	21,076	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 17,954</u>	<u>\$ 17,954</u>

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

	SPORTSPLEX FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 353,000	\$ 353,000	\$ 326,054	\$ (26,946)
Miscellaneous	27,000	27,000	4,838	(22,162)
Interest	200	200	167	(33)
Total Receipts	<u>380,200</u>	<u>380,200</u>	<u>331,059</u>	<u>(49,141)</u>
DISBURSEMENTS				
Recreation and Culture	463,215	463,215	463,120	95
Administration	56,985	165,493	52,507	112,986
Total Disbursements	<u>520,200</u>	<u>628,708</u>	<u>515,627</u>	<u>113,081</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(140,000)</u>	<u>(248,508)</u>	<u>(184,568)</u>	<u>63,940</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	125,000	225,000	165,000	(60,000)
Total Other Adjustments to Cash (Uses)	<u>125,000</u>	<u>225,000</u>	<u>165,000</u>	<u>(60,000)</u>
Net Change in Fund Balances	(15,000)	(23,508)	(19,568)	3,940
Fund Balances - Beginning	15,000	23,508	23,508	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 3,940</u>	<u>\$ 3,940</u>

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

	E-911 FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes	\$ 103,500	\$ 103,500	\$ 97,089	\$ (6,411)
Miscellaneous	100	100		(100)
Interest	180	180	133	(47)
Total Receipts	<u>103,780</u>	<u>103,780</u>	<u>97,222</u>	<u>(6,558)</u>
DISBURSEMENTS				
Protection to Persons and Property	122,850	122,579	88,414	34,165
Administration	3,930			
Total Disbursements	<u>126,780</u>	<u>122,579</u>	<u>88,414</u>	<u>34,165</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(23,000)</u>	<u>(18,799)</u>	<u>8,808</u>	<u>27,607</u>
Net Change in Fund Balances	(23,000)	(18,799)	8,808	27,607
Fund Balances - Beginning	23,000	18,799	18,799	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 27,607</u>	<u>\$ 27,607</u>

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

DEBT SERVICE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 410,000	\$ 439,825	\$ 478,700	\$ 38,875
Interest	300	300	500	200
Total Receipts	<u>410,300</u>	<u>440,125</u>	<u>479,200</u>	<u>39,075</u>
DISBURSEMENTS				
Debt Service	1,252,350	1,252,350	1,214,972	37,378
Administration	571,125	563,933		563,933
Total Disbursements	<u>1,823,475</u>	<u>1,816,283</u>	<u>1,214,972</u>	<u>601,311</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,413,175)</u>	<u>(1,376,158)</u>	<u>(735,772)</u>	<u>640,386</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	740,375	740,375	725,215	(15,160)
Total Other Adjustments to Cash (Uses)	<u>740,375</u>	<u>740,375</u>	<u>725,215</u>	<u>(15,160)</u>
Net Change in Fund Balances	(672,800)	(635,783)	(10,557)	625,226
Fund Balances - Beginning	672,800	635,783	635,783	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 625,226</u>	<u>\$ 625,226</u>

KNOTT COUNTY
NOTES TO SUPPLEMENTARY INFORMATION

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.

Note 2. Excess of Disbursements over Budgeted Appropriations

The Knott County Fiscal Court exceeded budget appropriations in the general fund general government line by \$663, road fund debt service line by \$60,719, local government economic assistance fund social services and recreation and culture lines by \$41,429 and \$8,900, respectively, state grants fund protection to persons and property line by \$40,551, and the federal grants fund general health and sanitation line by \$271,500.

KNOTT COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016

KNOTT 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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land and Land Improvements	\$ 1,054,505	\$	\$	\$ 1,054,505
Buildings	24,035,774	72,835		24,108,609
Vehicles and Equipment	2,387,830	56,041	(207,661)	2,236,210
Infrastructure	9,271,065	579,349		9,850,414
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 36,749,174</u>	<u>\$ 708,225</u>	<u>\$ (207,661)</u>	<u>\$ 37,249,738</u>

KNOTT 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, building improvements, furniture and office equipment, 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)
Buildings and Building Improvements	\$ 10,000	10-20
Vehicles & Equipment	\$ 10,000	5
Infrastructure	\$ 10,000	5-10

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*



The Honorable Zachary Weinberg, Knott County Judge/Executive
Members of the Knott County Fiscal Court

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

Independent Auditors' Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balance - Regulatory Basis of the Knott County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Knott County Fiscal Court's financial statement and have issued our report thereon dated December 20, 2016.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2016-004 to be a material weakness.

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 the Knott County Fiscal Court's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, and 2016-003.

Views of Responsible Officials and Planned Corrective Action

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

Purpose of this Report

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



RFH, PLLC
Lexington, Kentucky
December 20, 2016

**KNOTT COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2016

**KNOTT COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

Fiscal Year Ended June 30, 2016

STATE LAWS AND REGULATIONS:

2016-001 The Knott County Fiscal Court Did Not Properly Handle Disbursement Transactions

This is a repeat finding and was included in the prior year audit report as finding 2015-007. During the course of our audit we found the following noncompliance with disbursements:

- Twenty-seven invoices totaling \$1,015,203 were not paid within 30 working days.

The county used credit cards for a variety of purposes during fiscal year 2016, including conferences, gasoline, and meal purchases. Credit card use is allowable for county business. Our test of credit card purchases found the following:

- Accrued and paid interest charges totaling \$315.

Interest accrued on these invoices because the fiscal court did not pay the invoices within 30 days.

KRS 65.140(2) states that “all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performance or improper invoicing by the vendor or by the vendor’s subcontractor.” If payment of an invoice exceeds 30 days, a one percent interest penalty should be added according to KRS 65.140(3).

We recommend that the fiscal court implement controls over disbursements to ensure that all invoices are paid within 30 days.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The credit card receipts have to be collected and attached to the statement. The bill is then coded and checks written from the accounts necessary. These checks have to be signed with two signatures before mailing. The bill does not come in a timely fashion for these procedures to be done. We will make an effort to get them signed and mailed quicker.

2016-002 The Treasurer Did Not Prepare An Accurate Liability Schedule

This is a repeat finding and was included in the prior year audit report as finding 2015-003. The June 30, 2016 outstanding debt balances reported on the fourth quarter financial report did not agree to the actual debt balances confirmed with lenders. Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. The Department for Local Government requires all counties to include a complete and accurate liabilities schedule with their quarterly reports.

We recommend the fiscal court ensure that the county treasurer maintain a complete and accurate liabilities schedule in the future.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The jail information was not readily available in this timeframe and {Bank} doesn’t send their statements in time to be properly documented. The jail information should be available in a timely manner in the future and we will request information from {Bank} to be sent sooner.

KNOTT COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2016
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2016-003 Fund Transfers Were Not Approved By The Fiscal Court

The Knott County Fiscal Court did not approve fund transfers before executing them. Failing to oversee cash transfers resulted in unauthorized transfers. Without proper approval from the fiscal court, county funds could be misappropriated or misused. As stated in the *County Budget Preparation and State and Local Finance Officer Policy Manual*, all transfers require a fiscal court order. We recommend the county treasurer present all line item budget transfers to the fiscal court to ensure expenditures do not exceed budget.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Any transfers are reflected in the budget or amendments. These are approved by the Fiscal Court already.

Auditor's Reply:

While transfers are reflected in the budget or amendments, transfers should be approved by the fiscal court in advance, not after the transfers have been made.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-004 The Fiscal Court Lacks Adequate Internal Controls At The Knott County Sportsplex

This is a repeat finding and was included in the prior year audit report as finding 2015-006. Our review of the receipts and disbursement process for the Sportsplex revealed weaknesses in internal controls that should be addressed. The Knott County Sportsplex collects money for rental fees, membership fees, concessions, front door ticket sales, driving range, arcades, advertisements, and vending machines. The Sportsplex maintains cash registers at the front desk, the inside concession stand, and the outside concession stand. Change funds are maintained at the driving range and at the front door during ticket sales. During basketball season, referees are paid out of the front door cash receipts. Receipts are not issued for collections at the concession stand, driving range, and arcade. The Sportsplex director and another employee count the cash each morning and prepare a daily checkout sheet. The Sportsplex director faxes the daily checkout sheet to the county treasurer and makes the daily deposit. If referees are paid out of the cash drawer, the amount is listed on the daily checkout sheet to reduce cash receipts from the day's business. The fiscal court did not implement good internal controls over receipts. Because internal controls are not in place for receipts, money could be misappropriated and go undetected. Good internal controls over cash receipts help safeguard assets from employee theft, robbery, and unauthorized use. Good internal controls also enhance the accuracy and reliability of accounting records by reducing the risk of errors, intentional mistakes, and misrepresentations in the accounting process. Due to the high volume of cash transactions and not accounting for significant amounts of revenue, we recommend the county implement the following procedures:

- Pre-numbered receipts should be maintained for all monies collected. This procedure should be observed at the front desk, the concession stand, and the driving range.
- All checks should be copied and detailed on the deposit ticket with a name to identify collections.
- All daily checkout sheets and deposit tickets should be signed or initialed with a supervisor's approval to verify correct amounts were collected.
- All disbursements paid to referees should be made by check only.

KNOTT COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2016
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-004 The Fiscal Court Lacks Adequate Internal Controls At The Knott County Sportsplex (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The County is willing to implement as many of the Auditors' suggestions as possible.

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

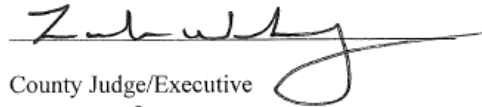
KNOTT COUNTY FISCAL COURT

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

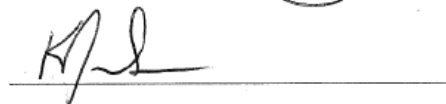
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
KNOTT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

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



County Judge/Executive



County Treasurer

