

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

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



**MIKE HARMON
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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 Doug Bishop, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

The enclosed report prepared by RFH, PLLC presents the financial statement of Rockcastle 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 Rockcastle County Fiscal Court's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon".

Mike Harmon
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT OF THE
ROCKCASTLE COUNTY FISCAL COURT

June 30, 2016

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

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

Financial Condition:

The Rockcastle County Fiscal Court had total receipts of \$7,166,111 and disbursements of \$6,967,346 in fiscal year 2016. This resulted in a total ending fund balance of \$909,567, which is an increase of \$198,877 from the prior year.

Report Comments:

- 2016-001 The Fiscal Court Did Not Ensure All Timesheets Were Prepared And Approved Prior To Payment
- 2016-002 The Fiscal Court Did Not Have Controls Over Purchase Orders
- 2016-003 The Fiscal Court Did Not Approve A Detailed Salary Schedule
- 2016-004 The Fiscal Court Did Not Ensure All County Employees Accrued Leave In Accordance With The County Administrative Policy
- 2016-005 The Jailer Did Not Present A Jail Commissary Financial Statement To The County Treasurer For Fiscal Year Ending June 30, 2016
- 2016-006 The Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2016-007 The Jailer Did Not Establish Procedures To Reconcile Book And Bank Balances On A Monthly Basis

Deposits:

Fiscal court deposits were insured and collateralized by bank securities.

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To the People of Kentucky
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Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Rockcastle County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Rockcastle 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 the Rockcastle 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 Rockcastle 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 Rockcastle 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 Rockcastle 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 January 30, 2017 on our consideration of the Rockcastle 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 Rockcastle 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 comments:

- 2016-001 The Fiscal Court Did Not Ensure All Timesheets Were Prepared And Approved Prior To Payment
- 2016-002 The Fiscal Court Did Not Have Controls Over Purchase Orders
- 2016-003 The Fiscal Court Did Not Approve A Detailed Salary Schedule
- 2016-004 The Fiscal Court Did Not Ensure All County Employees Accrued Leave In Accordance With The County Administrative Policy
- 2016-005 The Jailer Did Not Present A Jail Commissary Financial Statement To The County Treasurer For Fiscal Year Ending June 30, 2016
- 2016-006 The Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2016-007 The Jailer Did Not Establish Procedures To Reconcile Book And Bank Balances On A Monthly Basis

Respectfully submitted,



RFH, PLLC
Lexington, Kentucky
January 30, 2017

ROCKCASTLE COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Doug Bishop	County Judge/Executive
Gary Burdette	Magistrate
Shannon Bishop	Magistrate
Michael McGuire	Magistrate
William Denny	Magistrate
Bill McKinney	Magistrate

Other Elected Officials:

William D. Reynolds	County Attorney
Carlos McClure	Jailer
Danetta Ford Allen	County Clerk
Eliza York	Circuit Court Clerk
Michael Peters	Sheriff
Janet Vaughn	Property Valuation Administrator
Marvin Owens	Coroner

Appointed Personnel:

Joseph B. Clontz	County Treasurer
Patricia Martin	Chief Financial Officer

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

For The Year Ended June 30, 2016

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

For The Year Ended June 30, 2016

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 2,874,174	\$	\$
In Lieu Tax Payments		51,541	
Excess Fees	119,489		
Licenses and Permits	18,103		
Intergovernmental	338,498	1,734,129	579,520
Charges for Services	13,425		11,170
Miscellaneous	169,543	57,318	64,794
Interest	2,275	438	160
Total Receipts	<u>3,535,507</u>	<u>1,843,426</u>	<u>655,644</u>
DISBURSEMENTS			
General Government	1,208,114	18,000	
Protection to Persons and Property	165,096		1,017,755
General Health and Sanitation	111,428		
Social Services	12,521		
Recreation and Culture	59,427		
Roads		1,484,747	
Bus Services			
Debt Service	428,618	183,560	106,453
Capital Projects			
Administration	418,103	241,376	242,937
Total Disbursements	<u>2,403,307</u>	<u>1,927,683</u>	<u>1,367,145</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,132,200</u>	<u>(84,257)</u>	<u>(711,501)</u>
Other Adjustments to Cash (Uses)			
Voided Checks from Prior Year			
Transfers From Other Funds		173,765	655,000
Transfers To Other Funds	(825,655)	(173,765)	
Total Other Adjustments to Cash (Uses)	<u>(825,655)</u>	<u></u>	<u>655,000</u>
Net Change in Fund Balance	306,545	(84,257)	(56,501)
Fund Balance - Beginning	286,148	222,244	76,830
Fund Balance - Ending	<u>\$ 592,693</u>	<u>\$ 137,987</u>	<u>\$ 20,329</u>
Composition of Fund Balance			
Bank Balance	\$ 609,031	\$ 144,446	\$ 30,556
Less: Outstanding Checks	(16,338)	(6,459)	(10,227)
Fund Balance - Ending	<u>\$ 592,693</u>	<u>\$ 137,987</u>	<u>\$ 20,329</u>

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

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

Budgeted Funds					
Local Government Economic Assistance Fund	Forestry Fund	Fairgrounds Fund	911 Fund	Local Emergency Planning Committee Fund	Chemical Stockpile Emergency Preparedness Program Fund
\$	\$ 1,736	\$	\$ 238,625	\$	\$
174,123					467,390
2,411		113,794			
50	3		37		
<u>176,584</u>	<u>1,739</u>	<u>113,794</u>	<u>238,662</u>		<u>467,390</u>
46,949					
91,878	2,555		252,693	175	466,439
73,208					
		60,425			
18,691					
34,483			78,534	72	30,079
<u>265,209</u>	<u>2,555</u>	<u>60,425</u>	<u>331,227</u>	<u>247</u>	<u>496,518</u>
<u>(88,625)</u>	<u>(816)</u>	<u>53,369</u>	<u>(92,565)</u>	<u>(247)</u>	<u>(29,128)</u>
112					
55,000	655		75,000		40,000
<u>55,112</u>	<u>655</u>		<u>75,000</u>		<u>40,000</u>
(33,513)	(161)	53,369	(17,565)	(247)	10,872
40,982	483	2,413	37,548	1,920	15,095
<u>\$ 7,469</u>	<u>\$ 322</u>	<u>\$ 55,782</u>	<u>\$ 19,983</u>	<u>\$ 1,673</u>	<u>\$ 25,967</u>
\$ 12,637	\$ 322	\$ 105,806	\$ 25,217	\$ 1,673	\$ 26,954
<u>(5,168)</u>		<u>(50,024)</u>	<u>(5,234)</u>		<u>(987)</u>
<u>\$ 7,469</u>	<u>\$ 322</u>	<u>\$ 55,782</u>	<u>\$ 19,983</u>	<u>\$ 1,673</u>	<u>\$ 25,967</u>

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

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

	<u>Unbudgeted Fund</u>	
	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS		
Taxes	\$	\$ 3,114,535
In Lieu Tax Payments		51,541
Excess Fees		119,489
Licenses and Permits		18,103
Intergovernmental		3,293,660
Charges for Services		24,595
Miscellaneous	133,365	541,225
Interest		2,963
Total Receipts	<u>133,365</u>	<u>7,166,111</u>
DISBURSEMENTS		
General Government		1,273,063
Protection to Persons and Property		1,996,591
General Health and Sanitation		184,636
Social Services		12,521
Recreation and Culture	113,030	232,882
Roads		1,484,747
Bus Services		18,691
Debt Service		718,631
Capital Projects		34,483
Administration		1,011,101
Total Disbursements	<u>113,030</u>	<u>6,967,346</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>20,335</u>	<u>198,765</u>
Other Adjustments to Cash (Uses)		
Voided Checks from Prior Year		112
Transfers From Other Funds		999,420
Transfers To Other Funds		(999,420)
Total Other Adjustments to Cash (Uses)		<u>112</u>
Net Change in Fund Balance	20,335	198,877
Fund Balance - Beginning	<u>27,027</u>	<u>710,690</u>
Fund Balance - Ending	<u>\$ 47,362</u>	<u>\$ 909,567</u>
Composition of Fund Balance		
Bank Balance	\$ 47,362	\$ 1,004,004
Less Outstanding Checks		<u>(94,437)</u>
Ending Fund Balance	<u>\$ 47,362</u>	<u>\$ 909,567</u>

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

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TO THE FINANCIAL STATEMENT**

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ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Rockcastle County includes all budgeted and unbudgeted funds under the control of the Rockcastle County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

The Rockcastle County Industrial Development Authority would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However, under the regulatory basis, it is no longer a required component of the reporting entity.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

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.

Forestry Fund - The primary purpose of this fund is to account for the forestry expenses of the county. The primary sources of receipts for this fund are state grants.

Fairgrounds Fund - The primary purpose of this fund is to account for fairground expenses of the county. The primary source of receipts for this fund is from leasing or rental of property.

911 Fund - The primary purpose of this fund is to account for emergency personnel of the county. The primary source of the receipts for this fund is telephone fees collected.

Local Emergency Planning Committee (LEPC) - The primary purpose of this fund is to account for emergency planning expenses of the county. The primary source of receipts for this fund is state grants.

Chemical Stockpile Emergency Preparedness Program Fund (CSEPP) - The primary purpose of this fund is to account for emergency equipment and personnel expenses of the county. The primary sources of receipts for this fund are federal and state grants.

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

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

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

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

The State Local Finance Officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

E. Rockcastle County Elected Officials

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

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

H. Management's Review of Subsequent Events

Subsequent events for the county have been considered through January 30, 2017, which represents the date the financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended June 30, 2016, have not been evaluated by the 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, the fiscal court had total deposits of \$1,009,866. \$500,317 in deposits were covered by FDIC insurance and \$509,549 were secured by properly executed collateral security agreements.

Note 3. Transfers

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

	General Fund	Road Fund	Total Transfers In
Road Fund	\$	173,765	\$ 173,765
Jail Fund	655,000		655,000
LGEA Fund	55,000		55,000
Forestry Fund	655		655
CSEPP	40,000		40,000
911	75,000		75,000
Total Transfers Out	<u>\$ 825,655</u>	<u>\$ 173,765</u>	<u>\$ 999,420</u>

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

Note 3. Transfers (Continued)

Reason for transfers:

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

Note 4. Agency Trust Funds

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

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from inmates. The balance in the jail inmate fund bank accounts as of June 30, 2016 was \$41,046.

Note 5. Long-term Debt

A. General Obligation Refunding Bonds, Series 2007

The Rockcastle County Fiscal Court issued obligations of \$1,325,000 dated April 12, 2007 and payable in 19 annual installments beginning June 1, 2007 and semi-annual interest payments on the first of June and December at varying rates from 4.1 percent to 4.55 percent. The fiscal court issued the bonds for the purpose of refinancing the Kentucky Area Development Districts Financing Trust Debt, issued for the purpose of refinancing jail renovations and a fire truck for Brindle Ridge Fire Department. As of June 30, 2016, bonds outstanding were \$740,000. Scheduled principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 70,000	\$ 33,372
2018	75,000	30,292
2019	80,000	26,993
2020	80,000	23,393
2021	85,000	19,793
2022-2025	350,000	40,495
Totals	\$ 740,000	\$ 174,338

B. Financing Obligation - Land Purchase

On May 18, 2009, the Rockcastle County Fiscal Court entered into a lease agreement with the Kentucky Associations of Counties Leasing Trust Program to purchase land. Principal on the agreement was \$2,500,000, with a variable rate of interest. Monthly principal and interest payments are scheduled for a period of 20 years. The principal balance outstanding as of June 30, 2016 was \$866,766. Future lease principal and interest requirements are:

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

Note 5. Long-term Debt (Continued)

B. Financing Obligation - Land Purchase (Continued)

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 108,000	\$ 35,734
2018	113,000	31,116
2019	120,000	26,112
2020	120,000	21,039
2021	132,000	15,707
2022-2023	<u>273,766</u>	<u>14,450</u>
Totals	<u>\$ 866,766</u>	<u>\$ 144,158</u>

C. Financing Obligation - Fire Truck Lease

On November 13, 2007, the Rockcastle County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of a fire truck for the Livingston Fire Department. Principal on the agreement was \$65,000, with an effective interest rate of 4.56 percent. Monthly principal and interest payments are scheduled for a period of ten years. The principal balance outstanding as of June 30, 2016 was \$10,607. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 7,434	\$ 518
2018	<u>3,173</u>	<u>124</u>
Totals	<u>\$ 10,607</u>	<u>\$ 642</u>

D. Financing Obligation - Road Resurfacing

On June 22, 2009, the Rockcastle County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust for the purpose of resurfacing roads. Principal on the agreement was \$2,000,000, with an effective interest rate of three percent for a period of 15 years, with principal and interest payments scheduled monthly. The principal balance outstanding as of June 30, 2016 was \$1,095,899. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 137,379	\$ 44,742
2018	143,324	38,797
2019	149,540	32,581
2020	155,987	26,134
2021	162,746	19,375
2022-2023	<u>346,923</u>	<u>17,320</u>
Totals	<u>\$ 1,095,899</u>	<u>\$ 178,949</u>

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

Note 5. Long-term Debt (Continued)

E. Anchor Building

On April 12, 2012, the Rockcastle County Fiscal Court entered into a capital lease agreement with a local bank for the purpose of purchasing a building. Principal on the agreement was \$3,000,000, with an effective interest rate of 4.55 percent. Monthly principal and interest payments are scheduled for a period of 20 years. The principal balance outstanding as of June 30, 2016 was \$2,540,223.

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 116,880	\$ 68,396
2018	122,640	65,109
2019	128,400	61,664
2020	134,160	58,060
2021	139,920	54,298
2022	1,898,223	42,261
Totals	<u>\$ 2,540,223</u>	<u>\$ 349,788</u>

F. Financing Obligation - Industrial Authority

The Rockcastle County Industrial Development Authority entered into a loan with a local bank to construct a building. Principal on the loan was \$2,700,000, with an interest rate of four percent. Monthly principal and interest payments are scheduled for a period of 15 years. The principal balance outstanding as of June 30, 2016 was \$921,315. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 157,080	\$ 39,791
2018	162,262	34,610
2019	167,614	29,257
2020	173,144	23,408
2021	178,856	18,016
2022-2024	82,359	18,799
Totals	<u>\$ 921,315</u>	<u>\$ 163,881</u>

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

Note 5. Long-term Debt (Continued)

G. Financing Obligation - Land and Houses

On August 28, 2014, the Rockcastle County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Finance Corporation to purchase land and two houses to be leased to the Kentucky Country Music Hall of Fame. Principal on the agreement was \$415,000 with variable interest rates between 3.00 percent and 3.75 percent. Monthly principal and interest payments are scheduled for a period of 25 years. The principal balance outstanding as of June 30, 2016, was \$390,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 10,000	\$ 12,913
2018	12,500	12,613
2019	15,000	12,238
2020	15,000	11,788
2021	15,000	11,338
2022-2026	75,000	49,938
2027-2031	87,500	38,181
2032-2036	100,000	22,088
2037-2039	60,000	4,125
Totals	<u>\$ 390,000</u>	<u>\$ 175,222</u>

H. Financing Obligation - Fire Trucks and Equipment

On December 14, 2014, the Rockcastle County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust to purchase fire trucks and miscellaneous equipment. Principal on the agreement was \$280,000 with a fixed rate of interest at 3.15 percent. Monthly principal and interest payments are scheduled for a period of five years. The principal balance outstanding as of June 30, 2016, was \$200,783. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 55,129	\$ 6,939
2018	56,891	4,729
2019	58,709	2,449
2020	30,054	347
	<u>\$ 200,783</u>	<u>\$ 14,464</u>

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

Note 5. Long-term Debt (Continued)

I. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 810,000	\$	\$ 70,000	\$ 740,000	\$ 70,000
Financing Obligations	6,731,253		705,660	6,025,593	591,902
Total Long-term Debt	<u>\$7,541,253</u>	<u>\$</u>	<u>\$ 775,660</u>	<u>\$6,765,593</u>	<u>\$ 661,902</u>

Note 6. Conduit Debt

From time to time, the County has issued bonds to provide financial assistance to a local hospital for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Rockcastle County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2016, there was one series of refunding bonds outstanding, with an original principal amount payable of \$7,150,000.

As of July 1, 2016, there was a new 2016 series bond outstanding, with an original principal amount payable of \$9,000,000 that replaced the \$7,150,000 issue.

Note 7. 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 (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous 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.

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) 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.

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

Note 7. Employee Retirement System (Continued)

A. Plan Description (Continued)

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) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2014 was \$410,475, FY 2015 was \$391,379, and FY 2016 was \$370,930. These amounts include both the retirement portion and the insurance portions.

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.

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.

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.

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

Note 8. Deferred Compensation

In June 1990, the Rockcastle 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 9. Health Reimbursement Account/Flexible Spending Account

The Rockcastle County Fiscal Court, in Fiscal Court Order No. 10, established a health reimbursement account on October 1, 2011 to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan includes a debit card distributed to each eligible employee providing \$500 per year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction.

Note 10. Insurance

For the fiscal year ended June 30, 2016, Rockcastle 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 11. Related Party Transactions

- A. During the fiscal year ending June 30, 2016, the Rockcastle County Fiscal Court paid \$2,140 to a farm equipment business for equipment and supplies. The farm equipment business is owned by a magistrate's brother.
- B. During the fiscal year ending June 30, 2016, the Rockcastle County Fiscal Court paid \$1,629 to a tire business for equipment and supplies. The tire business is owned by the county judge/executive's nephew.

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

ROCKCASTLE 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	\$ 2,580,500	\$ 2,855,388	\$ 2,874,174	\$ 18,786
In Lieu Tax Payments	10,500	10,500		(10,500)
Excess Fees	40,485	119,489	119,489	
Licenses and Permits	19,000	19,000	18,103	(897)
Intergovernmental	384,248	456,322	338,498	(117,824)
Charges for Services	12,000	13,029	13,425	396
Miscellaneous	53,063	195,869	169,543	(26,326)
Interest	2,000	2,009	2,275	266
Total Receipts	<u>3,101,796</u>	<u>3,671,606</u>	<u>3,535,507</u>	<u>(136,099)</u>
DISBURSEMENTS				
General Government	1,245,822	1,348,012	1,208,114	139,898
Protection to Persons and Property	204,853	230,776	165,096	65,680
General Health and Sanitation	112,245	123,238	111,428	11,810
Social Services	27,925	27,925	12,521	15,404
Recreation and Culture	110,000	125,014	59,427	65,587
Debt Service	425,950	428,622	428,618	4
Administration	632,951	838,512	418,103	420,409
Total Disbursements	<u>2,759,746</u>	<u>3,122,099</u>	<u>2,403,307</u>	<u>718,792</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>342,050</u>	<u>549,507</u>	<u>1,132,200</u>	<u>582,693</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(592,050)	(835,655)	(825,655)	10,000
Total Other Adjustments to Cash (Uses)	<u>(592,050)</u>	<u>(835,655)</u>	<u>(825,655)</u>	<u>10,000</u>
Net Change in Fund Balance	(250,000)	(286,148)	306,545	592,693
Fund Balance Beginning	<u>250,000</u>	<u>286,148</u>	<u>286,148</u>	
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 592,693</u>	<u>\$ 592,693</u>

ROCKCASTLE 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				
In Lieu Tax Payments	\$ 33,000	\$ 53,836	\$ 51,541	\$ (2,295)
Intergovernmental	1,233,086	1,710,737	1,734,129	23,392
Miscellaneous	29,500	72,625	57,318	(15,307)
Interest	400	426	438	12
Total Receipts	<u>1,295,986</u>	<u>1,837,624</u>	<u>1,843,426</u>	<u>5,802</u>
DISBURSEMENTS				
General Government	18,000	18,000	18,000	
Roads	836,150	1,541,269	1,484,747	56,522
Debt Service	182,122	183,561	183,560	1
Administration	459,714	317,038	241,376	75,662
Total Disbursements	<u>1,495,986</u>	<u>2,059,868</u>	<u>1,927,683</u>	<u>132,185</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(200,000)</u>	<u>(222,244)</u>	<u>(84,257)</u>	<u>137,987</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			173,765	173,765
Transfers To Other Funds			<u>(173,765)</u>	<u>(173,765)</u>
Total Other Adjustments to Cash (Uses)				<u>173,765</u>
Net Change in Fund Balance	(200,000)	(222,244)	(84,257)	137,987
Fund Balance Beginning	<u>200,000</u>	<u>222,244</u>	<u>222,244</u>	
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 137,987</u>	<u>\$ 137,987</u>

ROCKCASTLE 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	\$ 834,001	\$ 846,982	\$ 579,520	\$ (267,462)
Charges for Services	7,500	7,500	11,170	3,670
Miscellaneous	6,000	70,764	64,794	(5,970)
Interest	125	153	160	
Total Receipts	<u>847,626</u>	<u>925,399</u>	<u>655,644</u>	<u>(269,762)</u>
DISBURSEMENTS				
Protection to Persons and Property	1,015,700	1,130,391	1,017,755	112,636
Debt Service	101,858	106,858	106,453	405
Administration	265,638	419,980	242,937	177,043
Total Disbursements	<u>1,383,196</u>	<u>1,657,229</u>	<u>1,367,145</u>	<u>290,084</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(535,570)</u>	<u>(731,830)</u>	<u>(711,501)</u>	<u>20,322</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>510,570</u>	<u>655,000</u>	<u>655,000</u>	
Total Other Adjustments to Cash (Uses)	<u>510,570</u>	<u>655,000</u>	<u>655,000</u>	
Net Change in Fund Balance	(25,000)	(76,830)	(56,501)	20,329
Fund Balance Beginning	<u>25,000</u>	<u>76,830</u>	<u>76,830</u>	
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 20,329</u>	<u>\$ 20,329</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 240,000	\$ 274,649	\$ 174,123	\$ (100,526.00)
Miscellaneous	500	1,259	2,411	1,152
Interest	50	50	50	
Total Receipts	<u>240,550</u>	<u>275,958</u>	<u>176,584</u>	<u>(99,374)</u>
DISBURSEMENTS				
General Government	51,502	53,377	46,949	6,428
Protection to Persons and Property	95,505	98,501	91,878	6,623
General Health and Sanitation	64,972	87,185	73,208	13,977
Social Services	1,800	1,800		
Roads	77,600	66,703	18,691	48,012
Administration	33,900	64,598	34,483	30,115
Total Disbursements	<u>325,279</u>	<u>372,164</u>	<u>265,209</u>	<u>105,155</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(84,729)</u>	<u>(96,206)</u>	<u>(88,625)</u>	<u>5,781</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	44,729	55,000	55,000	
Voided Prior Year Check		224	112	(112)
Total Other Adjustments to Cash (Uses)	<u>44,729</u>	<u>55,224</u>	<u>55,112</u>	<u>(112)</u>
Net Change in Fund Balance	(40,000)	(40,982)	(33,513)	7,469
Fund Balance - Beginning	<u>40,000</u>	<u>40,982</u>	<u>40,982</u>	
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 7,469</u>	<u>\$ 7,469</u>

ROCKCASTLE 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)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes	\$ 1,750	\$ 1,750	\$ 1,736	\$ (14)
Interest	5	5	3	(2)
Total Receipts	<u>1,755</u>	<u>1,755</u>	<u>1,739</u>	<u>(16)</u>
DISBURSEMENTS				
Protection to Persons and Property	2,560	2,560	2,555	5
Administration		333		333
Total Disbursements	<u>2,560</u>	<u>2,893</u>	<u>2,555</u>	<u>338</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(805)</u>	<u>(1,138)</u>	<u>(816)</u>	<u>322</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	655	655	655	
Total Other Adjustments to Cash (Uses)	<u>655</u>	<u>655</u>	<u>655</u>	
Net Change in Fund Balance	(150)	(483)	(161)	322
Fund Balance Beginning	<u>150</u>	<u>483</u>	<u>483</u>	
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 322</u>	<u>\$ 322</u>

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

	FAIRGROUNDS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
State Grant	\$	\$ 100,000	\$ 100,000	\$
Miscellaneous	14,000	14,850	13,794	(1,056)
Total Receipts	14,000	114,850	113,794	(1,056)
DISBURSEMENTS				
Recreation and Culture	13,800	64,068	60,425	3,643
Administration	1,200	53,195		53,195
Total Disbursements	15,000	117,263	60,425	56,838
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,000)	(2,413)	53,369	55,782
Net Change in Fund Balance	(1,000)	(2,413)	53,369	55,782
Fund Balance Beginning	1,000	2,413	2,413	
Fund Balance - Ending	\$	\$	\$ 55,782	\$ 55,782

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

	911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 240,000	\$ 240,000	\$ 238,625	\$ (1,375)
Intergovernmental	17,500	17,500		(17,500)
Miscellaneous	3,500	3,500		(3,500)
Interest	50	50	37	(13)
Total Receipts	<u>261,050</u>	<u>261,050</u>	<u>238,662</u>	<u>(22,388)</u>
DISBURSEMENTS				
Protection to Persons and Property	256,700	276,996	252,693	24,303
Administration	75,446	90,506	78,534	11,972
Total Disbursements	<u>332,146</u>	<u>367,502</u>	<u>331,227</u>	<u>36,275</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(71,096)</u>	<u>(106,452)</u>	<u>(92,565)</u>	<u>13,887</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	36,096	68,904	75,000	6,096
Total Other Adjustments to Cash (Uses)	<u>36,096</u>	<u>68,904</u>	<u>75,000</u>	<u>6,096</u>
Net Change in Fund Balance	(35,000)	(37,548)	(17,565)	19,983
Fund Balance Beginning	<u>35,000</u>	<u>37,548</u>	<u>37,548</u>	
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 19,983</u>	<u>\$ 19,983</u>

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

	LEPC FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 700	\$ 700	\$	\$ (700)
Total Receipts	<u>700</u>	<u>700</u>		<u>(700)</u>
DISBURSEMENTS				
Protection to Persons and Property	700	724	175	549
Administration	2,000	1,896	72	1,824
Total Disbursements	<u>2,700</u>	<u>2,620</u>	<u>247</u>	<u>1,824</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,000)</u>	<u>(1,920)</u>	<u>(247)</u>	<u>1,124</u>
Net Change in Fund Balance	(2,000)	(1,920)	(247)	1,673
Fund Balance Beginning	<u>2,000</u>	<u>1,920</u>	<u>1,920</u>	
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 1,673</u>	<u>\$ 1,673</u>

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

	CSEPP FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 319,622	\$ 458,423	\$ 467,390	\$ 8,967
Total Receipts	<u>319,622</u>	<u>458,423</u>	<u>467,390</u>	<u>8,967</u>
DISBURSEMENTS				
Protection to Persons and Property	293,851	522,811	466,439	56,372
Administration	26,771	30,707	30,079	628
Total Disbursements	<u>320,622</u>	<u>553,518</u>	<u>496,518</u>	<u>57,000</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,000)</u>	<u>(95,095)</u>	<u>(29,128)</u>	<u>65,967</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds		80,000	40,000	(40,000)
Total Other Adjustments to Cash (Uses)		<u>80,000</u>	<u>40,000</u>	<u>(40,000)</u>
Net Change in Fund Balance	(1,000)	(15,095)	10,872	25,967
Fund Balance Beginning	<u>1,000</u>	<u>15,095</u>	<u>15,095</u>	
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 25,967</u>	<u>\$ 25,967</u>

ROCKCASTLE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

Note 1. Budgetary Information

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

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

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

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

ROCKCASTLE 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	\$ 1,087,776	\$	\$	\$ 1,087,776
Buildings and Improvements	14,714,513	155,000		14,869,513
Vehicles and Equipment	1,739,223		(21,000)	1,718,223
Other Equipment	2,653,774	182,762		2,836,536
Infrastructure	7,482,076	505,876		7,987,952
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$27,677,362</u>	<u>\$ 843,638</u>	<u>\$ (21,000)</u>	<u>\$28,500,000</u>

ROCKCASTLE 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, office equipment and furniture, 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	\$ 10,000	10-75
Buildings and Improvements	\$ 10,000	10-60
Vehicles and Equipment	\$ 10,000	10-25
Other Equipment	\$ 10,000	2-10
Infrastructure	\$ 10,000	10-60

**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 Doug Bishop, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Rockcastle County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Rockcastle County Fiscal Court's financial statement and have issued our report thereon dated January 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Rockcastle 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 opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Rockcastle County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rockcastle 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 questioned costs, we 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 statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-006 and 2016-007 to be material weaknesses.

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rockcastle County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, 2016-003, 2016-004, and 2016-005.

Views of Responsible Officials and Planned Corrective Action

Rockcastle 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.

Respectfully submitted,



RFH, PLLC
Lexington, Kentucky
January 30, 2017

**ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

Fiscal Year Ended June 30, 2016

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended June 30, 2016

STATE LAWS AND REGULATIONS:

2016-001 The Fiscal Court Did Not Ensure All Timesheets Were Prepared And Approved Prior To Payment

During our testing of payroll, we noted three employees were not completing a timesheet. Three employees did not have a timesheet on-hand for pay periods examined during our testing of payroll. Employees that did not have timesheets were from the following departments: county treasurer, dog warden, and RCIDA department.

Improper maintenance and approval of timesheets could lead to inappropriate payment to employees for work provided.

KRS 337.320 requires that all employers keep a record of the hours worked each day and week by each employee. To ensure compliance with KRS 337.320, we recommend all employees, other than elected officials, complete a timesheet. We further recommend the fiscal court review timesheets prior to payment for hours worked, accuracy of calculation, and approval by authorized personnel in order to ensure all employees are paid the appropriate amounts.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Department supervisors review timesheets prior to payment. The Treasurer has started keeping a timesheet, there are no longer any employees in the RCIDA program, and the Dog Warden keeps a log of incidents as he is on-call.

2016-002 The Fiscal Court Did Not Have Controls Over Purchase Orders

Testing of fiscal court disbursements revealed that sixteen disbursements were not supported by a purchase order.

Lack of oversight by accounting personnel appears to have been the cause. Failure to monitor expenses could lead to overspending budgeted amounts.

The State Local Finance Officer, given the authority by KRS 68.210, requires all disbursements to be accompanied by a purchase order, within budgeted amounts, and sufficiently documented. KRS 65.140(2) states "[u]nless the purchaser and vendor otherwise contract, 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 performances or improper invoicing[.]" KRS 68.275(3) states "[t]he Fiscal Court may adopt an order, called a standing order, to preapprove the payment of recurrent monthly payroll and utility expenses. No other expenses shall be preapproved pursuant to this subsection without the written consent of the state local finance officer."

We recommend the fiscal court strengthen the control over purchases by ensuring purchase orders are completed for all disbursements of the county and listed on the fiscal court's monthly claims list.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: We will strive to continue to improve and attach purchase orders to all expenditures.

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

STATE LAWS AND REGULATIONS: (Continued)

2016-003 The Fiscal Court Did Not Have A Detailed Salary Schedule

The county approved the rehiring of all county employees, but failed to provide an updated salary schedule to auditors. This could lead to payroll errors including the over/under payment of county employees.

KRS 64.530 states the fiscal court of each county shall fix the compensation of every county officer and employee.

We recommend the county to continue approving salaries annually, and also keep an up to date salary schedule that lists a breakdown of hourly and salary wages for all county employees. Furthermore, the county should also include the starting pay rates for entry-level positions. The county should revise this list as increases are approved by the fiscal court.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: We agree to start doing this. Mid-year adjustments will also be approved.

2016-004 The Fiscal Court Did Not Ensure All County Employees Accrue Leave Time In Accordance With The County Administrative Policy

During our testing of payroll, we noted that Rockcastle County Detention Center employees accrue leave time annually, which is different than the rest of the county. Allowing multiple methods for accruing leave time could lead to inaccurate leave time balances.

According to the county's administrative policy, three hours of leave time per pay period accrues from the date of hire "for all full-time employees during their first twenty four (24) months of service[.]" "During the first twelve (12) months of county service, no employee is permitted to take a paid personal leave of absence (personal time). For all full-time employees with two (2) or more years of service, four and one-half (4.5) hours per pay period shall be accrued. No employee may be compensated at a rate greater than his/her accrued personal time."

We recommend that all county employees, which include detention center employees, accrue leave time in accordance with the guidance covered in the administrative policy.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court is currently evaluating the leave policy. Once we get it corrected, we will get it approved by the Fiscal Court.

2016-005 The Jailer Did Not Present A Jail Commissary Financial Statement To The County Treasurer For Fiscal Year Ending June 30, 2016

A jail commissary financial statement was not presented to the county treasurer for the fiscal year ending June 30, 2016 as required by KRS 441.135. The jailer was not aware of the requirement to present an annual financial statement for the jail commissary to the county treasurer. The county treasurer and fiscal court were not made aware of the financial activity of the jail commissary fund.

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

STATE LAWS AND REGULATIONS: (Continued)

2016-005 The Jailer Did Not Present A Jail Commissary Financial Statement To The County Treasurer For Fiscal Year Ending June 30, 2016 (Continued)

KRS 441.135(2) requires the jailer to “keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account.”

We recommend the jailer prepare an accurate annual financial statement for the jail commissary. The jail commissary’s annual financial statement should then be presented to the county treasurer as required.

Views of Responsible Official and Planned Corrective Action:

County Jailer’s Response: We will prepare and submit to the Treasurer currently, and by July 31 going forward.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2016-006 The Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

Due to the limited number of employees, the jail lacks adequate segregation of duties over receipts, disbursements, and reconciliations. The bookkeeper prepares deposits and posts these deposits to the receipts ledger. The bookkeeper also prepares and signs checks, and posts these disbursements to the disbursements ledger. The bookkeeper is also responsible for reconciling to the bank account. By allowing the same employee to perform all functions relating to receipts, disbursements and reconciliations, the risk increases that errors or fraud could occur without being detected.

The jail has a small staff available to segregate duties in the accounting process. Without proper segregation of duties, inaccurate financial reporting and/or fraud can occur. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business.

To adequately protect employees in the normal course of business, and to prevent inaccurate financial reporting and misappropriation of assets, we recommend the jailer implement strong oversight in these areas, either by an employee independent of those functions or by the jailer, such as:

- The jailer should periodically compare bank deposits to the daily checkout sheet and receipts ledger. Any differences should be reconciled. The jailer should document this by initialing the bank deposit, the daily checkout sheet, and the receipts ledger.
- The jailer should review supporting documentation for all disbursements made. The jailer should also compare disbursements written to the disbursements ledger. The jailer should document this by initialing the supporting documentation and the disbursements ledger.
- The jailer should set up the Commissary account to require two signatures on checks, with one being the jailer’s signature.
- The jailer should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The jailer should document this by initialing the bank reconciliation and the balance in the checkbook.

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

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2016-006 The Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations (Continued)

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: Will implement a system where one person prepares reconciliations and the Jailer will review monthly.

2016-007 The Jailer Did Not Establish Procedures To Reconcile Book And Bank Balances On A Monthly Basis

The jailer maintains a manual general ledger of receipts and disbursements for the commissary (profit) account along with a checkbook register. An account balance is maintained in both of these ledgers. As of June 30, 2016, there was a difference of \$14,168 between the ending balance in the manual ledger and the checkbook register. Additionally, there was no reconciliation between the manual ledger and the bank statement. There was evidence of comparison to see what items had cleared, but there was no completed reconciliation between the balances.

The jailer failed to adopt a policy requiring a monthly reconciliation between amounts reflected on the bank statements and the ledgers. The difference noted above could have been resolved if reconciliation procedures were established by the jailer.

Failure to reconcile ledgers can lead to financial reporting errors or misappropriations being undetected.

KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual*, under minimum requirements for handling of public funds, requires monthly reconciliation of bank statements.

The jailer should establish a policy requiring monthly reconciliations of ledger and bank balances to minimize financial reporting errors and the risk of undetected fraudulent activity.

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: Will implement a system where one person prepares reconciliations and the Jailer will review monthly.

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

ROCKCASTLE COUNTY FISCAL COURT

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

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
ROCKCASTLE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

The Rockcastle 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.



Doug Bishop, County Judge/Executive



Joseph Clontz, County Treasurer

