

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

**For The Fiscal Year Ended  
June 30, 2018**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**





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

To the People of Kentucky  
The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
The Honorable Jeff Dobson, Knott County Judge/Executive  
The Honorable Zach Weinberg, Former 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, 2018.

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



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Members of the Knott County Fiscal

### 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, 2018, 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 in more fully in Note 1, the financial statement is prepared by the 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, 2018, 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, 2018, 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, Capital Asset Schedule, and the Schedule of Expenditure of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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, Capital Asset Schedule, and Schedule of Expenditures of Federal Awards 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, Capital Asset Schedule, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2019, 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 Questioned Costs included herein, which discusses the following report comments:

- 2018-001 The Knott County Fiscal Court Did Not Pay Invoices Presented To The Fiscal Court Within 30 Days Of Receipt
- 2018-002 The Sportsplex Lacks Internal Controls Over Cash Receipts

**RFH**

RFH, PLLC  
Lexington, Kentucky  
February 11, 2019

KNOTT COUNTY OFFICIALS

For The Year Ended June 30, 2018

**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
Lisa Bolen	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, 2018**

**KNOTT COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2018**

	<b>Budgeted Funds</b>			
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>
<b>RECEIPTS</b>				
Taxes	\$ 2,004,926	\$	\$	\$
In Lieu Tax Payments	10,325			
Excess Fees	57,448			
Intergovernmental	330,623	1,719,286	102,040	1,045,170
Charges for Services	124,241			40,540
Miscellaneous	301,648		3,938	111,465
Interest	2,003	2,805	330	776
Total Receipts	<u>2,831,214</u>	<u>1,722,091</u>	<u>106,308</u>	<u>1,197,951</u>
<b>DISBURSEMENTS</b>				
General Government	1,192,856			28,845
Protection to Persons and Property	3,638		527,185	164,204
General Health and Sanitation				173,435
Social Services	4,593			211,008
Recreation and Culture				454,300
Roads		1,251,870		78,195
Debt Service	3,172	174,553		
Capital Projects		100,322		
Administration	1,050,200	177,792	106,452	266,757
Total Disbursements	<u>2,254,459</u>	<u>1,704,537</u>	<u>633,637</u>	<u>1,376,744</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>576,755</u>	<u>17,554</u>	<u>(527,329)</u>	<u>(178,793)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	302,500	152,417	535,000	425,000
Transfers To Other Funds	(946,000)	(242,500)		(242,417)
Borrowed Money				
Lease Premium				
Total Other Adjustments to Cash (Uses)	<u>(643,500)</u>	<u>(90,083)</u>	<u>535,000</u>	<u>182,583</u>
Net Change in Fund Balances	(66,745)	(72,529)	7,671	3,790
Fund Balances - Beginning	153,593	127,122	3,792	6,664
Fund Balances - Ending	<u>\$ 86,848</u>	<u>\$ 54,593</u>	<u>\$ 11,463</u>	<u>\$ 10,454</u>
<b>Composition of Fund Balance</b>				
Bank Balances	\$ 150,301	\$ 118,889	\$ 11,463	\$ 12,386
Add: Deposits in Transit				501
Less: Outstanding Checks	(63,453)	(64,296)		(2,433)
Fund Balances - Ending	<u>\$ 86,848</u>	<u>\$ 54,593</u>	<u>\$ 11,463</u>	<u>\$ 10,454</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, 2018**  
**(Continued)**

<b>Budgeted Funds</b>							
<b>State Grants Fund</b>	<b>Federal Grants Fund</b>	<b>Emergency Management Fund</b>	<b>Forestry Fund</b>	<b>Sports Plex Fund</b>	<b>E-911 Fund</b>	<b>Debt Service Fund</b>	<b>Total Funds</b>
\$	\$	\$	\$ 3,265	\$	\$ 102,829	\$	\$ 2,111,020
							10,325
							57,448
618,946	894,554	17,737				472,700	5,201,056
				353,844			518,625
				5,610	39	1,477	424,177
1,735	2	90	15	228	239	99	8,322
<u>620,681</u>	<u>894,556</u>	<u>17,827</u>	<u>3,280</u>	<u>359,682</u>	<u>103,107</u>	<u>474,276</u>	<u>8,330,973</u>
							1,221,701
50,000			2,118		95,241		842,386
60,997	767,154						1,001,586
17,996							233,597
81,502				510,999			1,046,801
							1,330,065
						1,123,035	1,300,760
19,410	220,000						339,732
		96		48,568			1,649,865
<u>229,905</u>	<u>987,154</u>	<u>96</u>	<u>2,118</u>	<u>559,567</u>	<u>95,241</u>	<u>1,123,035</u>	<u>8,966,493</u>
							(635,520)
390,776	(92,598)	17,731	1,162	(199,885)	7,866	(648,759)	(635,520)
							2,372,492
655,318				213,000		89,257	2,372,492
(289,575)		(17,000)				(635,000)	(2,372,492)
						1,095,000	1,095,000
						117,265	117,265
<u>365,743</u>		<u>(17,000)</u>		<u>213,000</u>		<u>666,522</u>	<u>1,212,265</u>
756,519	(92,598)	731	1,162	13,115	7,866	17,763	576,745
58,019	92,901	5,529	1,188	9,072	14,139	4,102	476,121
<u>\$ 814,538</u>	<u>\$ 303</u>	<u>\$ 6,260</u>	<u>\$ 2,350</u>	<u>\$ 22,187</u>	<u>\$ 22,005</u>	<u>\$ 21,865</u>	<u>\$ 1,052,866</u>
							1,204,579
\$ 814,538	\$ 5,303	\$ 6,260	\$ 2,350	\$ 24,568	\$ 36,656	\$ 21,865	\$ 1,204,579
	(5,000)			(2,381)	(14,651)		501
<u>\$ 814,538</u>	<u>\$ 303</u>	<u>\$ 6,260</u>	<u>\$ 2,350</u>	<u>\$ 22,187</u>	<u>\$ 22,005</u>	<u>\$ 21,865</u>	<u>\$ 1,052,866</u>

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**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2018**

**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. Knott County 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, 2018**  
**(Continued)**

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

**C. Basis of Presentation (Continued)**

Local Government Economic Assistance Fund (LGEA) - The primary purpose of this fund is to account for grants and related expenditures. 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 expenditures 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 expenditures 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 expenditures separately from the general fund.

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

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

Debt Service Fund - This fund contains 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 expenditures 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. Expenditures may not exceed budgeted appropriations at the activity level.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(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 legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the Kentucky River 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, 2018**  
**(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 percent for Perry County and 25 percent 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(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2018:

	General Fund	Road Fund	LGEA Fund	State Grants Fund	Emergency Management Fund	Debt Service Fund	Total Transfers In
General Fund	\$	\$ 202,500	\$	\$ 100,000	\$	\$	\$ 302,500
Road Fund			152,417				152,417
Jail Fund	450,000		35,000			50,000	535,000
LGEA Fund	168,000	40,000		100,000	17,000	100,000	425,000
State Grants Fund	655,000			318			655,318
Sportsplex Fund	128,000		55,000			30,000	213,000
Debt Service Fund	(455,000)			89,257		455,000	89,257
Total Transfers Out	<u>\$ 946,000</u>	<u>\$ 242,500</u>	<u>\$ 242,417</u>	<u>\$ 289,575</u>	<u>\$ 17,000</u>	<u>\$ 635,000</u>	<u>\$ 2,372,492</u>

The purpose of 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. First Mortgage Refunding Revenue Bonds**

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 1.0 percent to 3.25 percent. As of June 30, 2018, the principal balance outstanding was \$2,190,000. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest And Other Fees
2019	\$ 415,000	\$ 59,500
2020	425,000	49,506
2021	435,000	37,138
2022	450,000	23,863
2023	<u>465,000</u>	<u>7,556</u>
Totals	<u>\$ 2,190,000</u>	<u>\$ 177,563</u>

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

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

**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 2 percent to 3 percent. As of June 30, 2018, the remaining principal balance outstanding was \$5,405,000. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest
2019	\$ 465,000	\$ 169,138
2020	480,000	153,800
2021	500,000	137,900
2022	515,000	121,425
2023	525,000	104,538
2024-2028	<u>2,920,000</u>	<u>248,838</u>
Totals	<u>\$ 5,405,000</u>	<u>\$ 935,638</u>

**C. General Obligation Revenue Bonds, 2017 First Series E**

The Knott County Fiscal Court issued \$1,212,265 in revenue bonds dated November 15, 2017. The bonds were issued for roads and a building as well as improvements at the Sportsplex. The bonds are payable in annual installments with the interest payable in semi-annual installments, beginning December 20, 2017. Interest accrues at a rate of 2.71 percent. As of June 30, 2018, the principal balance outstanding was \$1,095,000. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest And Other Fees
2019	\$ 45,000	\$ 51,373
2020	45,000	49,010
2021	45,000	46,648
2022	50,000	44,160
2023	55,000	41,410
2024-2028	320,000	160,250
2029-2033	<u>535,000</u>	<u>24,183</u>
Totals	<u>\$ 1,095,000</u>	<u>\$ 417,033</u>

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 4. Long-term Debt**

**D. Equipment Leases**

The Knott County Fiscal Court leases various equipment from time to time. The county maintained one lease with CAT Financial during the year ended June 30, 2018. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest
2019	\$ 31,357	\$ 2,467
2020	32,275	1,549
2021	33,220	604
2022	2,818	7
Totals	<u>\$ 99,670</u>	<u>\$ 4,627</u>

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

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 2,595,000	\$ 1,095,000	\$ 405,000	\$ 3,285,000	\$ 460,000
Financing Obligations	5,975,000		570,000	5,405,000	465,000
Equipment Leases	130,136		30,464	99,672	31,357
Total Long-term Debt	<u>\$ 8,700,136</u>	<u>\$ 1,095,000</u>	<u>\$ 1,005,464</u>	<u>\$ 8,789,672</u>	<u>\$ 956,357</u>

**Note 5. Employee Retirement System**

**Plan Description**

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer defined benefit pension plan, which covers all eligible regular full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2016 was \$430,250, FY 2017 was \$485,185, and FY 2018 was \$466,720.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to the plan to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund. The county's contribution rate for nonhazardous employees was 19.18 percent.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

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

**Plan Description (Continued)**

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

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

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 31.55 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 accounts. Hazardous members contribute 8 percent of their annual creditable compensation and also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a 7.5 employer pay credit. The employer pay credit represents a portion of the employer contribution.

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.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

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

A. Health Insurance Coverage - Tier 1

CERS also provides post-retirement health care coverage as follows:

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

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

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

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the 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.

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

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

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

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

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

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

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

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

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

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

D. Cost of Living Adjustments - Tier 1

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

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

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

F. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

KRS also issues 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>. 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, 2018**  
**(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. Health Reimbursement Account**

The Knott County Fiscal Court established a health reimbursement account to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The county contributes \$2,000 to each employee. The employees' accounts are credited each month throughout the fiscal year.

**Note 8. Insurance**

For the fiscal year ended June 30, 2018, 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 9. Subsequent Events**

The county has evaluated and considered the need to recognize or disclose subsequent events through February 11, 2019, 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, 2017, have not been evaluated by the county.

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

**For The Year Ended June 30, 2018**

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

**For The Year Ended June 30, 2018**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 2,324,300	\$ 2,539,514	\$ 2,004,926	\$ (534,588)
In Lieu Tax Payments	1,000	10,325	10,325	
Excess Fees	32,000	65,465	57,448	(8,017)
Intergovernmental Revenue	349,600	375,297	330,623	(44,674)
Charges for Services	141,000	141,000	124,241	(16,759)
Miscellaneous	216,500	308,098	301,648	(6,450)
Interest	2,300	2,300	2,003	(297)
Total Revenues	<u>3,066,700</u>	<u>3,441,999</u>	<u>2,831,214</u>	<u>(610,785)</u>
<b>DISBURSEMENTS</b>				
General Government	1,035,492	1,320,772	1,192,856	127,916
Protection to Persons and Property	2,300	5,938	3,638	2,300
Social Services	4,000	5,593	4,593	1,000
Debt Service	3,172	3,172	3,172	
Administration	1,268,886	1,616,618	1,050,200	566,418
Total Disbursements	<u>2,313,850</u>	<u>2,952,093</u>	<u>2,254,459</u>	<u>697,634</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>752,850</u>	<u>489,906</u>	<u>576,755</u>	<u>86,849</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	202,500	302,500	302,500	
Transfers To Other Funds	(1,080,350)	(1,697,494)	(946,000)	751,494
Borrowed Money		751,494		(751,494)
Total Other Adjustments to Cash (Uses)	<u>(877,850)</u>	<u>(643,500)</u>	<u>(643,500)</u>	
Net Change in Fund Balances	(125,000)	(153,594)	(66,745)	86,849
Fund Balances - Beginning	125,000	153,594	153,593	(1)
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 86,848</u>	<u>\$ 86,848</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental Revenue	\$ 1,967,300	\$ 1,992,214	\$ 1,719,286	\$ (272,928)
Miscellaneous	11,000	11,000		(11,000)
Interest	3,500	3,500	2,805	(695)
Total Revenues	<u>1,981,800</u>	<u>2,006,714</u>	<u>1,722,091</u>	<u>(284,623)</u>
<b>DISBURSEMENTS</b>				
Roads	1,604,158	1,530,645	1,251,870	278,775
Debt Service	177,213	200,929	174,553	26,376
Capital Projects	125,000	125,000	100,322	24,678
Administration	276,929	263,763	177,792	85,971
Total Disbursements	<u>2,183,300</u>	<u>2,120,337</u>	<u>1,704,537</u>	<u>415,800</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(201,500)</u>	<u>(113,623)</u>	<u>17,554</u>	<u>131,177</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	229,000	229,000	152,417	(76,583)
Transfers To Other Funds	<u>(202,500)</u>	<u>(242,500)</u>	<u>(242,500)</u>	
Total Other Adjustments to Cash (Uses)	<u>26,500</u>	<u>(13,500)</u>	<u>(90,083)</u>	<u>(76,583)</u>
Net Change in Fund Balances	(175,000)	(127,123)	(72,529)	54,594
Fund Balances - Beginning	<u>175,000</u>	<u>127,123</u>	<u>127,122</u>	<u>(1)</u>
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 54,593</u>	<u>\$ 54,593</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental Revenue	\$ 117,200	\$ 117,200	\$ 102,040	\$ (15,160)
Miscellaneous	8,000	8,000	3,938	(4,062)
Interest	250	350	330	(20)
Total Revenues	<u>125,450</u>	<u>125,550</u>	<u>106,308</u>	<u>(19,242)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	458,350	552,174	527,185	24,989
Administration	107,100	112,168	106,452	5,716
Total Disbursements	<u>565,450</u>	<u>664,342</u>	<u>633,637</u>	<u>30,705</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(440,000)</u>	<u>(538,792)</u>	<u>(527,329)</u>	<u>11,463</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	430,000	535,000	535,000	
Total Other Adjustments to Cash (Uses)	<u>430,000</u>	<u>535,000</u>	<u>535,000</u>	
Net Change in Fund Balances	(10,000)	(3,792)	7,671	11,463
Fund Balances - Beginning	10,000	3,792	3,792	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 11,463</u>	<u>\$ 11,463</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental Revenue	\$ 960,000	\$ 1,099,640	\$ 1,045,170	\$ (54,470)
Charges for Services	29,000	40,709	40,540	(169)
Miscellaneous	41,000	117,603	111,465	(6,138)
Interest	800	800	776	(24)
Total Revenues	<u>1,030,800</u>	<u>1,258,752</u>	<u>1,197,951</u>	<u>(60,801)</u>
<b>DISBURSEMENTS</b>				
General Government	28,250	32,804	28,845	3,959
Protection to Persons and Property	172,376	178,745	164,204	14,541
General Health and Sanitation	207,750	194,953	173,435	21,518
Social Services	212,800	214,707	211,008	3,699
Recreation and Culture	424,500	476,855	454,300	22,555
Roads	73,500	79,511	78,195	1,316
Administration	407,624	335,424	266,757	68,667
Total Disbursements	<u>1,526,800</u>	<u>1,512,999</u>	<u>1,376,744</u>	<u>136,255</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(496,000)</u>	<u>(254,247)</u>	<u>(178,793)</u>	<u>75,454</u>
<b>Other Adjustments to Cash (Uses)</b>				
Loan From General Fund				
Transfers From Other Funds	490,000	590,000	425,000	165,000
Transfers To Other Funds	<u>(129,000)</u>	<u>(342,417)</u>	<u>(242,417)</u>	<u>(100,000)</u>
Total Other Adjustments to Cash (Uses)	<u>361,000</u>	<u>247,583</u>	<u>182,583</u>	<u>65,000</u>
Net Change in Fund Balances	(135,000)	(6,664)	3,790	10,454
Fund Balances - Beginning	135,000	6,664	6,664	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 10,454</u>	<u>\$ 10,454</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>STATE GRANTS FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental Revenue	\$ 920,000	\$ 1,070,119	\$ 618,946	\$ (451,173)
Miscellaneous	5,000	5,000		(5,000)
Interest	1,500	1,750	1,735	(15)
Total Revenues	<u>926,500</u>	<u>1,076,869</u>	<u>620,681</u>	<u>(456,188)</u>
<b>DISBURSEMENTS</b>				
General Government	1,000	1,000		1,000
Protection to Persons and Property	66,000	66,000	50,000	16,000
General Health and Sanitation	56,500	67,513	60,997	6,516
Social Services	55,000	31,000	17,996	13,004
Recreation and Culture	11,000	84,537	81,502	3,035
Capital Projects	5,000	20,000	19,410	590
Administration	11,625	779,782		779,782
Total Disbursements	<u>206,125</u>	<u>1,049,832</u>	<u>229,905</u>	<u>819,927</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>720,375</u>	<u>27,037</u>	<u>390,776</u>	<u>363,739</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds		655,319	655,318	1
Transfers To Other Funds	(740,375)	(740,375)	(289,575)	(450,800)
Total Other Adjustments to Cash (Uses)	<u>(740,375)</u>	<u>(85,056)</u>	<u>365,743</u>	<u>(450,799)</u>
Net Change in Fund Balances	(20,000)	(58,019)	756,519	814,538
Fund Balances - Beginning	20,000	58,019	58,019	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 814,538</u>	<u>\$ 814,538</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>FEDERAL GRANTS FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental Revenue	\$ 330,000	\$ 894,554	\$ 894,554	\$
Interest	3	3	2	(1)
Total Revenues	<u>330,003</u>	<u>894,557</u>	<u>894,556</u>	<u>(1)</u>
<b>DISBURSEMENTS</b>				
General Health and Sanitation	30,000	767,154	767,154	
Capital Projects	300,000	220,304	220,000	304
Administration	299			
Total Disbursements	<u>330,299</u>	<u>987,458</u>	<u>987,154</u>	<u>304</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(296)</u>	<u>(92,901)</u>	<u>(92,598)</u>	<u>303</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds				
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balances	(296)	(92,901)	(92,598)	303
Fund Balances - Beginning	296	92,901	92,901	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 303</u>	<u>\$ 303</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

**EMERGENCY MANAGEMENT FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental Revenue	\$ 100,000	\$ 100,000	\$ 17,737	\$ (82,263)
Interest	300	300	90	(210)
Total Revenues	<u>100,300</u>	<u>100,300</u>	<u>17,827</u>	<u>(82,473)</u>
<b>DISBURSEMENTS</b>				
Roads				
Administration	15,300	5,829	96	5,733
Total Disbursements	<u>15,300</u>	<u>5,829</u>	<u>96</u>	<u>5,733</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>85,000</u>	<u>94,471</u>	<u>17,731</u>	<u>(76,740)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	(100,000)	(100,000)	(17,000)	83,000
Total Other Adjustments to Cash (Uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>(17,000)</u>	<u>83,000</u>
Net Change in Fund Balances	(15,000)	(5,529)	731	6,260
Fund Balances - Beginning	15,000	5,529	5,529	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
	<u>6,260</u>	<u>6,260</u>	<u>6,260</u>	<u>6,260</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

<b>FORESTRY FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 3,650	\$ 3,711	\$ 3,265	\$ (446)
Interest	200	200	15	(185)
Total Revenues	<u>3,850</u>	<u>3,911</u>	<u>3,280</u>	<u>(631)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	2,500	2,500	2,118	382
Administration	19,350	2,599		2,599
Total Disbursements	<u>21,850</u>	<u>5,099</u>	<u>2,118</u>	<u>2,981</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(18,000)</u>	<u>(1,188)</u>	<u>1,162</u>	<u>2,350</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds				
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balances	(18,000)	(1,188)	1,162	2,350
Fund Balances - Beginning	18,000	1,188	1,188	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 2,350</u>	<u>\$ 2,350</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

<b>SPORTSPLEX FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Charges for Services	\$ 333,000	\$ 348,150	\$ 353,844	\$ 5,694
Miscellaneous	9,000	9,000	5,610	(3,390)
Interest	200	240	228	(12)
Total Revenues	<u>342,200</u>	<u>357,390</u>	<u>359,682</u>	<u>2,292</u>
<b>DISBURSEMENTS</b>				
Recreation and Culture	453,515	518,076	510,999	7,077
Administration	60,035	98,977	48,568	50,409
Total Disbursements	<u>513,550</u>	<u>617,053</u>	<u>559,567</u>	<u>57,486</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(171,350)</u>	<u>(259,663)</u>	<u>(199,885)</u>	<u>59,778</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	160,350	250,592	213,000	(37,592)
Total Other Adjustments to Cash (Uses)	<u>160,350</u>	<u>250,592</u>	<u>213,000</u>	<u>(37,592)</u>
Net Change in Fund Balances	(11,000)	(9,071)	13,115	22,186
Fund Balances - Beginning	11,000	9,071	9,072	1
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 22,187</u>	<u>\$ 22,187</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>E-911 FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 103,500	\$ 103,500	\$ 102,829	\$ (671)
Miscellaneous	100	150	39	(111)
Interest	180	237	239	2
Total Revenues	<u>103,780</u>	<u>103,887</u>	<u>103,107</u>	<u>(780)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	108,000	109,606	95,241	14,365
Administration	14,780	8,420		8,420
Total Disbursements	<u>122,780</u>	<u>118,026</u>	<u>95,241</u>	<u>22,785</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(19,000)</u>	<u>(14,139)</u>	<u>7,866</u>	<u>22,005</u>
Net Change in Fund Balances	(19,000)	(14,139)	7,866	22,005
Fund Balances - Beginning	19,000	14,139	14,139	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 22,005</u>	<u>\$ 22,005</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>DEBT SERVICE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental Revenue	\$ 479,750	\$ 479,750	\$ 472,700	\$ (7,050)
Miscellaneous		1,477	1,477	
Interest	300	300	99	(201)
Total Revenues	<u>480,050</u>	<u>481,527</u>	<u>474,276</u>	<u>(7,251)</u>
<b>DISBURSEMENTS</b>				
Debt Service	1,218,695	1,045,695	1,123,035	(77,340)
Administration	616,730	309		309
Total Disbursements	<u>1,835,425</u>	<u>1,046,004</u>	<u>1,123,035</u>	<u>(77,031)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,355,375)</u>	<u>(564,477)</u>	<u>(648,759)</u>	<u>(84,282)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	740,375	740,375	89,257	(651,118)
Transfers to Other Funds		(180,000)	(635,000)	(455,000)
Borrowed Money			1,095,000	
Lease Premium			117,265	
Total Other Adjustments to Cash (Uses)	<u>740,375</u>	<u>560,375</u>	<u>666,522</u>	<u>(1,106,118)</u>
Net Change in Fund Balances	(615,000)	(4,102)	17,763	21,865
Fund Balances - Beginning	615,000	4,102	4,102	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 21,865</u>	<u>\$ 21,865</u>

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

**June 30, 2018**

**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 expenditures 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 Appropriations**

The debt service fund debt service disbursement exceeded appropriations by \$77,340. This was caused by moving certain debt service from the general fund to the debt service fund.

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

**For The Year Ended June 30, 2018**

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

**For The Year Ended June 30, 2018**

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 1,054,505	\$	\$	\$ 1,054,505
Buildings	24,668,776	929,419		25,598,195
Vehicles and Equipment	2,470,529	23,020	104,613	2,388,936
Infrastructure	10,452,809	359,558		10,812,367
 Total Capital Assets	 \$ 38,646,619	 \$ 1,311,997	 \$ 104,613	 \$ 39,854,003

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

**June 30, 2018**

**Note 1. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Buildings and Building Improvements	\$ 10,000	10-20
Vehicles & Equipment	\$ 10,000	5
Infrastructure	\$ 10,000	5-10

**KNOTT COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended June 30, 2018**

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**KNOTT COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2018**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Provided to Subrecipient	Total Federal Expenditures
<b><u>U. S Department of Housing and Urban Development</u></b>					
<i>Passed-Through State Department for Local Government:</i>					
Community Development Block Grants/State's Program	Ball Creek Sanitary	14.228	8CS 2014	\$ 568,686	\$ 568,686
Community Development Block Grants/State's Program	Hickory Hill	14.228	16-043	<u>220,000</u>	<u>220,000</u>
<b>Total U.S. Department of Housing and Urban Development</b>				<u>788,686</u>	<u>788,686</u>
<b><u>Appalachian Regional Commission</u></b>					
<i>Passed-Through State Department for Local Government:</i>					
Appalachian Regional Commission	Ball Creek Sanitary	23.001	8CS 2014	<u>\$ 198,468</u>	<u>\$ 198,468</u>
<b>Total Appalachia Regional Commission</b>				<u>198,468</u>	<u>198,468</u>
<b><u>U.S. Department of Health and Human Services</u></b>					
<i>Passed-Through State Department for Aging and Independent Living-KRADD</i>					
Special Programs for the Aging Title III, Part B	Senior citizens	93.044	PON2 1700002624 4	\$	\$ 13,523
Special Programs for the Aging Title III, Part C		93.045	PON2 1700002624 4		70,920
Nutrition Services Incentive Program		93.053	PON2 1700002624 4		31,724
<b>Total U.S. Department of Health and Human Services</b>					<u>116,167</u>
<b><u>U.S. Department of Homeland Security</u></b>					
<i>Passed-Through State Department of Military Affairs:</i>					
Disaster Grants - Public Assistance		97.036	Not Available	\$	\$ 3,174
Emergency Management Performance Grants		97.042	PO2 09516000021481		<u>14,294</u>
<b>Total U.S. Department of Homeland Security</b>					<u>17,468</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 987,154</u>	<u>\$ 1,120,789</u>

The accompanying notes are an integral part of this schedule.

**KNOTT COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**June 30, 2018**

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Knott County, Kentucky under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Knott County, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Knott County, Kentucky.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported 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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**Note 3. Indirect Cost Rate**

Knott County has not adopted an indirect cost rate and did not elect to use the 10 percent *de minimus* cost rate as allowed under the Uniform Guidance.

**Note 4. Determination of Major Program**

A Type A program for the fiscal court is any program for which total expenditures of federal awards exceed \$750,000 for fiscal year 2018 or were deemed high risk. The major program tested was:

CFDA #14.228 Community Development Block Grant/State's Program

**Note 5. Noncash Expenditures**

There were no noncash expenditures of federal awards for fiscal year 2018.

**Note 6. Pass-Through**

Knott County was a pass through agency and distributed \$568,686 of Community Development Block Grant/State's Program funds and \$198,468 in Appalachian Regional Commission funds to Troublesome Creek Environmental Authority and \$220,000 of Community Development Block Grant/State's Program funds to Kentucky River Community Care.

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

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The Honorable Jeff Dobson, Knott County Judge/Executive  
The Honorable Zachary Weinberg, Former 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 Balances - Regulatory Basis of the Knott County Fiscal Court for the fiscal year ended June 30, 2018, 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 February 11, 2019.

**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 (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Knott County's Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Knott County Fiscal Court's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-002 that we consider to be a significant deficiency.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001.

### **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 Questioned Costs. 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  
February 11, 2019

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH UNIFORM GUIDANCE**

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

Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With Uniform Guidance

Independent Auditor's Report

**Report on Compliance for Each Major Federal Program**

We have audited the Knott County Fiscal Court's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Knott County Fiscal Court's major federal programs for the year June 30, 2018. The Knott County Fiscal Court's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Knott County Fiscal Court's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Knott County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Knott County Fiscal Court's compliance.

Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With Uniform Guidance  
(Continued)

**Opinion on Each Major Federal Program**

In our opinion, the Knott County Fiscal Court's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

**Report on Internal Control over Compliance**

Management of the Knott County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Knott County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Knott County Fiscal Court's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
February 11, 2019

**KNOTT COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2018**

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**KNOTT COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2018**

**Section I: Summary of Auditor's Results**

Type of auditor's report issued: Adverse on GAAP and Unmodified on Regulatory Basis

Internal control over financial reporting:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Are any noncompliances material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

**Federal Awards**

Internal control over major programs:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major federal programs: Unmodified		
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant State's Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**KNOTT COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For The Year Ended June 30, 2018**  
**(Continued)**

**Section II: Financial Statement Findings**

*State Laws And Regulations*

2018-001 The Knott County Fiscal Court Did Not Pay Invoices Presented To The Fiscal Court Within 30 Days of Receipt

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This is a repeat finding and was included in the prior year audit report as finding 2017-001. During the course of our audit we found the following noncompliance with disbursements:

- Thirteen invoices totaling \$753,428 were not paid within 30 working days
- Accrued and paid interest charges totaling \$75 on a credit card
- Late payment fees totaling \$38 on a credit card

The fiscal court lacks sufficient oversight and policies and procedures to ensure bills are paid timely. As a result, some vendors were paid outside the 30-day window.

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 by the vendor or by the vendor’s subcontractor.”

We recommend that the fiscal court implement sufficient oversight and policies and procedures to ensure invoices are paid timely.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive and Treasurer’s Response: The Knott County Fiscal Court continues to strive to pay bills within thirty days. Those bills were paid outside thirty days primarily due to lack of funds.*

***Internal Control - Significant Deficiency***

2018-002 The Sportsplex Lacks Internal Controls Over Cash Receipts

---

In January 2018, subsequent to the issuance of the findings of the fiscal year 2017 audit, changes were implemented at the Knott County Sportsplex in an effort to strengthen internal controls over cash receipts. During our current year audit, we noted some improvements in internal controls however we still observed deficiencies that need to be addressed.

The Knott County Sportsplex collects money for rental fees, league fees, membership fees, concessions, front door admission 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. Referees and umpires are paid out of the cash collected from the respective events. The Sportsplex director and the morning front desk employee count the cash together and prepare the daily deposit sheet totaling cash collected for the previous day. The Director prepares the deposit slip agreeing to the daily deposit sheet and takes deposit to bank. A copy of the daily deposit sheet is then faxed to the treasurer.

**KNOTT COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For The Year Ended June 30, 2018**  
**(Continued)**

**Section II: Financial Statement Findings (Continued)**

***Internal Control - Significant Deficiency (Continued)***

**2018-002 The Sportsplex Lacks Internal Controls Over Cash Receipts (Continued)**

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We selected 12 daily deposit sheets throughout fiscal year 2018 for additional testing of controls in place. Below is a summary of our testing:

- The point of sale documents did not always match for the first half of the year, but all documentation match starting in January 2018.
- The front desk documentation for cash receipts did not always match for the first half of the year, but starting in January 2018, receipt documents matched.

We recommend the Fiscal Court continue to improve the internal control by reconciling all amounts on the daily deposit report to the underlying documentation on a daily basis.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive and Treasurer's Response: The Knott County Fiscal Court has greatly improved internal controls at the Sportsplex. We will continue to make improving internal controls at the Sportsplex a top priority.*

**Section III: Federal Award Findings and Questioned Costs**

None.

**Section IV: Summary Schedule of Prior Audit Findings**

Finding Number	Prior Year Finding Title	Status	Corrective Action
2017-001	Knott County Fiscal Court Did Not Properly Handle Disbursement Transactions	Unresolved	See corrective action for current year finding 2018-001
2017-002	Deficiency In Internal Controls At The Knott County Sportsplex	Unresolved	See corrective action for current year finding 2018-002

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

**KNOTT COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2018**

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**KNOTT COUNTY FISCAL COURT**

**Judge Executive:**  
**Zach Weinberg**  
P.O. Box 505  
54 West Main Street  
Hindman, KY 41822

**Deputy Judge Executive:**  
**Larry King**  
Telephone: (606) 785-5592  
FAX: (606) 785-0966

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

KNOTT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2018

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.

  
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County Judge/Executive

  
\_\_\_\_\_

County Treasurer