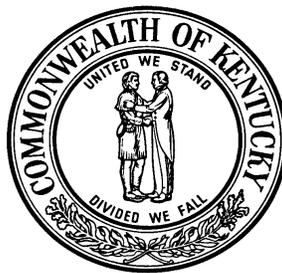


**REPORT OF THE AUDIT OF THE  
KNOTT COUNTY  
FISCAL COURT**

**For The Year Ended  
June 30, 2019**



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

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Jeff Dobson, Knott County Judge/Executive

The Honorable Zachary Weinberg, Former Knott County Judge/Executive

Members of the Knott County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Knott County Fiscal Court, for the year ended June 30, 2019, 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.



To the People of Kentucky  
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Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Jeff Dobson, Knott County Judge/Executive  
The Honorable Zachary Weinberg, Former Knott County Judge/Executive  
Members of the Knott County Fiscal Court

**Auditor’s Responsibility (Continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the 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, 2019, 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, 2019, 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 and Other 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 (supplementary information) and Schedule of Capital Assets (other information) 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.

To the People of Kentucky  
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 Holly M. Johnson, Secretary  
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 Members of the Knott County Fiscal Court

**Other Matters (Continued)**

*Supplementary and Other Information (Continued)*

The accompanying Budgetary Comparison Schedules 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 are fairly stated in all material respects in relation to the financial statement as a whole.

The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 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 Responses included herein, which discusses the following report findings:

- 2019-001 Fund Transfers Were Not Approved By The Fiscal Court In Advance
- 2019-002 The Knott County Fiscal Court Lacks Adequate Controls Over Disbursements
- 2019-003 Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented Or Recorded
- 2019-004 The Fiscal Court Lacks Adequate Internal Controls At The Knott County Sportsplex
- 2019-005 The Knott County Fiscal Court Does Not Have Adequate Controls Over Payroll

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

December 19, 2019

**KNOTT COUNTY OFFICIALS****For The Year Ended June 30, 2019****Fiscal Court Members:**

Jeff Dobson	County Judge/Executive
Zach Weinberg	Former County Judge/Executive
Langus Martin	Magistrate
Kenny Dyer	Magistrate
Calvin Waddles	Magistrate
Avery Shrum	Magistrate
Jamie Mosley	Former Magistrate

**Other Elected Officials:**

Timothy Bates	County Attorney
Robby Slone	Jailer
Maurica Cornett	County Clerk
Lisa Bolen	Circuit Court Clerk
Dale Richardson	Sheriff
Edward Slone	Property Valuation Administrator
Corey Watson	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, 2019**

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

**For The Year Ended June 30, 2019**

	<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	\$ 2,136,175	\$	\$	\$
In Lieu Tax Payments	10,542			
Excess Fees	54,306			
Intergovernmental	468,516	1,571,850	104,674	1,010,858
Charges for Services	152,308			26,253
Miscellaneous	346,602	280	751	32,760
Interest	5,460	6,169	593	1,540
Total Receipts	<u>3,173,909</u>	<u>1,578,299</u>	<u>106,018</u>	<u>1,071,411</u>
<b>DISBURSEMENTS</b>				
General Government	1,127,332			55,411
Protection to Persons and Property	131,137		618,897	170,447
General Health and Sanitation	5,412			155,924
Social Services				205,245
Recreation and Culture				521,851
Roads		2,171,272		79,322
Debt Service	3,172	114,953		
Capital Projects		93,662		
Administration	1,010,445	163,258	107,853	261,475
Total Disbursements	<u>2,277,498</u>	<u>2,543,145</u>	<u>726,750</u>	<u>1,449,675</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>896,411</u>	<u>(964,846)</u>	<u>(620,732)</u>	<u>(378,264)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	310,575	1,177,843	612,000	542,120
Transfers To Other Funds	(1,213,000)	(221,000)		(150,000)
Total Other Adjustments to Cash (Uses)	<u>(902,425)</u>	<u>956,843</u>	<u>612,000</u>	<u>392,120</u>
Net Change in Fund Balance	(6,014)	(8,003)	(8,732)	13,856
Fund Balance - Beginning	86,848	54,593	11,463	10,454
Fund Balance - Ending	<u>\$ 80,834</u>	<u>\$ 46,590</u>	<u>\$ 2,731</u>	<u>\$ 24,310</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 114,950	\$ 54,626	\$ 9,294	\$ 27,044
Plus: Deposits In Transit	6,538			
Less: Outstanding Checks	<u>(40,654)</u>	<u>(8,036)</u>	<u>(6,563)</u>	<u>(2,734)</u>
Fund Balance - Ending	<u>\$ 80,834</u>	<u>\$ 46,590</u>	<u>\$ 2,731</u>	<u>\$ 24,310</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, 2019**  
**(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 Complex Fund</b>
\$	\$	\$	\$ 3,265	\$
876,072	200,000	457,095		331,276
110				9,665
3,116		471		461
<u>879,298</u>	<u>200,000</u>	<u>457,566</u>	<u>3,265</u>	<u>341,402</u>
3,719				
50,000			2,118	
150,000				
12,575				
114,893				473,993
	200,000			52,922
<u>331,187</u>	<u>200,000</u>		<u>2,118</u>	<u>526,915</u>
<u>548,111</u>		<u>457,566</u>	<u>1,147</u>	<u>(185,513)</u>
5,000				166,868
(1,314,493)		(463,645)		
<u>(1,309,493)</u>		<u>(463,645)</u>		<u>166,868</u>
(761,382)		(6,079)	1,147	(18,645)
814,538	303	6,260	2,350	22,187
<u>\$ 53,156</u>	<u>\$ 303</u>	<u>\$ 181</u>	<u>\$ 3,497</u>	<u>\$ 3,542</u>
\$ 103,139	\$ 303	\$ 181	\$ 3,497	\$ 12,262
(49,983)				2,129
<u>(49,983)</u>				<u>(10,849)</u>
<u>\$ 53,156</u>	<u>\$ 303</u>	<u>\$ 181</u>	<u>\$ 3,497</u>	<u>\$ 3,542</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, 2019**  
**(Continued)**

	<u>Budgeted Funds</u>		
	<u>E-911 Fund</u>	<u>Debt Service Fund</u>	<u>Total Funds</u>
<b>RECEIPTS</b>			
Taxes	\$ 94,717	\$	\$ 2,234,157
In Lieu Tax Payments			10,542
Excess Fees			54,306
Intergovernmental		474,500	5,163,565
Charges for Services			509,837
Miscellaneous	74		390,242
Interest	672	165	18,647
Total Receipts	<u>95,463</u>	<u>474,665</u>	<u>8,381,296</u>
<b>DISBURSEMENTS</b>			
General Government			1,186,462
Protection to Persons and Property	78,408		1,051,007
General Health and Sanitation			311,336
Social Services			217,820
Recreation and Culture			1,110,737
Roads			2,250,594
Debt Service		1,044,100	1,162,225
Capital Projects			293,662
Administration			1,595,953
Total Disbursements	<u>78,408</u>	<u>1,044,100</u>	<u>9,179,796</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>17,055</u>	<u>(569,435)</u>	<u>(798,500)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Transfers From Other Funds		569,600	3,384,006
Transfers To Other Funds		(21,868)	(3,384,006)
Total Other Adjustments to Cash (Uses)		<u>547,732</u>	
Net Change in Fund Balance	17,055	(21,703)	(798,500)
Fund Balance - Beginning	22,005	21,865	1,052,866
Fund Balance - Ending	<u>\$ 39,060</u>	<u>\$ 162</u>	<u>\$ 254,366</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 39,060	\$ 162	\$ 364,518
Plus: Deposits In Transit			8,667
Less: Outstanding Checks			(118,819)
Fund Balance - Ending	<u>\$ 39,060</u>	<u>\$ 162</u>	<u>\$ 254,366</u>

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

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENT**

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**KNOTT COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2019**

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

**A. Reporting Entity**

The financial statement of Knott County includes all budgeted and unbudgeted 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. 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 Knott County Justice Center Corporation 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, they are no longer are required components 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.

**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.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

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

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

**Budgeted Funds (Continued)**

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.

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.

Sports Complex 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 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.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

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

**D. Budgetary Information (Continued)**

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

**E. 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 on this 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, 2019**  
**(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, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the 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, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2019.

	General Fund	Road Fund	Local Government Economic Assistance Fund	State Grants Fund	Emergency Management Fund	Debt Service Fund	Total Transfers In
General Fund	\$	\$ 221,000	\$	\$ 89,575	\$	\$	\$ 310,575
Road Fund	79,000			655,318	443,525		1,177,843
Jail Fund	507,000		105,000				612,000
LGEA Fund	522,000				20,120		542,120
State Grants Fund	5,000						5,000
Sports Complex Fund	100,000		45,000			21,868	166,868
Debt Service Fund				569,600			569,600
Total Transfers Out	<u>\$ 1,213,000</u>	<u>\$ 221,000</u>	<u>\$ 150,000</u>	<u>\$1,314,493</u>	<u>\$ 463,645</u>	<u>\$ 21,868</u>	<u>\$ 3,384,006</u>

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(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. Long-term Debt**

**A. Direct Borrowings**

**1. Equipment Lease**

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, 2019. In the event of default, CAT financial will have all rights and remedies available under applicable law. In addition, they may declare all lease payments due or to become due during the fiscal year in which the event of default occurs to be immediately due and payable and/or we may repossess the units by giving written notice to deliver the units to CAT financial in the manner provided, or in the event of failure to do so within (10) days after receipt of such notice, and subject to all applicable laws, CAT financial may enter upon the premises and take possession of the units. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 29,621	\$ 1,384
2021	33,220	604
2022	2,813	7
Totals	<u>\$ 65,654</u>	<u>\$ 1,995</u>

**2. 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. In case of default, the lessor may (a) by appropriate court action, enforce the pledge set forth in this lease so that during the remaining lease term there is levied on all the taxable property of the lessee, in addition to all other taxes, without limitation as to the rate or amount, a direct tax annually in an amount sufficient to the pay the lease rental payments when and as due, (b) take legal title to, and sell or re-lease the project or any portion thereof, or (c) take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the project under this lease (including, without limitation, the right to possession of the project and the right to sell or re-lease or otherwise dispose of the project in accordance with applicable law); and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the Lessee of the applicable covenants and agreements of the lessee under this lease (subject, however, to the limitations thereon contained in this Lease) and to recover damages for the breach thereof. As of June 30, 2019, the remaining principal balance outstanding was \$4,940,000. Payments for the remaining years are as follows:

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

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

**A. Direct Borrowings (Continued)**

**2. Financing Obligation - Long Term Lease (Continued)**

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 480,000	\$ 227,900
2021	500,000	137,900
2022	515,000	121,425
2023	525,000	104,538
2024	550,000	87,100
2025-2028	<u>2,370,000</u>	<u>161,738</u>
Totals	<u>\$ 4,940,000</u>	<u>\$ 840,601</u>

**B. Other Debt**

**1. 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, 2019, the principal balance outstanding was \$1,775,000. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 425,000	\$ 47,506
2021	435,000	35,138
2022	450,000	21,863
2023	<u>465,000</u>	<u>7,556</u>
Totals	<u>\$ 1,775,000</u>	<u>\$ 112,063</u>

**2. 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.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

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

**B. Other Debt (continued)**

**2. General Obligation Revenue Bonds, 2017 First Series E (Continued)**

In case of default, the lessor may (a) by appropriate court action, enforce the pledge set forth in this lease so that during the remaining lease term there is levied on all the taxable property of the lessee, in addition to all other taxes, without limitation as to the rate or amount, a direct tax annually in an amount sufficient to pay the lease rental payments when and as due, (b) take legal title to, and sell or re-lease the project or any portion thereof, or (c) take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the project under this lease (including, without limitation, the right to possession of the project and the right to sell or re-lease or otherwise dispose of the project in accordance with applicable law); and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the Lessee of the applicable covenants and agreements of the lessee under this lease (subject, however, to the limitations thereon contained in this Lease) and to recover damages for the breach thereof. As of June 30, 2019, the principal balance outstanding was \$1,050,000. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 45,000	\$ 57,510
2021	45,000	46,648
2022	50,000	44,160
2023	55,000	41,410
2024	55,000	38,523
2025-2029	710,000	135,925
2030-2033	90,000	9,985
Totals	<u>\$ 1,050,000</u>	<u>\$ 374,161</u>

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

Long-term Debt activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings	\$ 5,504,672	\$	\$ 499,018	\$ 5,005,654	\$ 509,621
Revenue Bonds	3,285,000		460,000	2,825,000	470,000
Total Long-term Debt	<u>\$ 8,789,672</u>	<u>\$ 0</u>	<u>\$ 959,018</u>	<u>\$ 7,830,654</u>	<u>\$ 979,621</u>

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 5. Employee Retirement System**

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 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 2017 was \$458,185, FY 2018 was \$466,720, and FY 2019 was \$490,673.

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 be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

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. 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 (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.

The county's contribution rate for nonhazardous employees was 21.48 percent.

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.

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.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

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

Hazardous (Continued)

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 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 percent 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.

The county's contribution rate for hazardous employees was 35.34 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, 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.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

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

Other Post-Employment Benefits (OPEB) (Continued)

**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 percent. 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 percent 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.

**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 percent. 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 percent 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 percent. 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.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

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

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 proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports 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.

**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 the Kentucky Public Employees' Deferred Compensation Authority at 501 High Street, 2nd Floor, 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, 2019, the Knott County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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

**For The Year Ended June 30, 2019**

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

**For The Year Ended June 30, 2019**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 2,090,800	\$ 2,444,477	\$ 2,136,175	\$ (308,302)
In Lieu Tax Payments	10,350	10,542	10,542	
Excess Fees	26,000	62,083	54,306	(7,777)
Intergovernmental	346,500	490,668	468,516	(22,152)
Charges for Services	150,000	152,308	152,308	
Miscellaneous	230,600	353,556	346,602	(6,954)
Interest	1,800	5,569	5,460	(109)
Total Receipts	<u>2,856,050</u>	<u>3,519,203</u>	<u>3,173,909</u>	<u>(345,294)</u>
<b>DISBURSEMENTS</b>				
General Government	1,025,010	1,204,213	1,127,332	76,881
Protection to Persons and Property	1,500	132,396	131,137	1,259
General Health and Sanitation	4,000	6,412	5,412	1,000
Debt Service	3,172	3,172	3,172	
Administration	1,223,853	1,217,383	1,010,445	206,938
Total Disbursements	<u>2,257,535</u>	<u>2,563,576</u>	<u>2,277,498</u>	<u>286,078</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>598,515</u>	<u>955,627</u>	<u>896,411</u>	<u>(59,216)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	221,000	310,577	310,575	(2)
Transfers To Other Funds	(989,515)	(1,353,053)	(1,213,000)	140,053
Total Other Adjustments to Cash (Uses)	<u>(768,515)</u>	<u>(1,042,476)</u>	<u>(902,425)</u>	<u>140,051</u>
Net Change in Fund Balance	(170,000)	(86,849)	(6,014)	80,835
Fund Balance - Beginning	170,000	86,849	86,848	(1)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 80,834</u>	<u>\$ 80,834</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,972,800	\$ 2,086,562	\$ 1,571,850	\$ (514,712)
Miscellaneous	11,000	11,000	280	(10,720)
Interest	3,500	6,292	6,169	(123)
Total Receipts	<u>1,987,300</u>	<u>2,103,854</u>	<u>1,578,299</u>	<u>(525,555)</u>
<b>DISBURSEMENTS</b>				
Roads	1,540,658	2,416,005	2,171,272	244,733
Debt Service	119,350	119,350	114,953	4,397
Capital Projects	106,768	106,768	93,662	13,106
Administration	290,024	473,167	163,258	309,909
Total Disbursements	<u>2,056,800</u>	<u>3,115,290</u>	<u>2,543,145</u>	<u>572,145</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(69,500)</u>	<u>(1,011,436)</u>	<u>(964,846)</u>	<u>46,590</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	115,500	1,177,843	1,177,843	
Transfers To Other Funds	<u>(221,000)</u>	<u>(221,000)</u>	<u>(221,000)</u>	
Total Other Adjustments to Cash (Uses)	<u>(105,500)</u>	<u>956,843</u>	<u>956,843</u>	
Net Change in Fund Balance	(175,000)	(54,593)	(8,003)	46,590
Fund Balance - Beginning	<u>175,000</u>	<u>54,593</u>	<u>54,593</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 46,590</u>	<u>\$ 46,590</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 124,200	\$ 124,200	\$ 104,674	\$ (19,526)
Miscellaneous	1,000	1,000	751	(249)
Interest	250	555	593	38
Total Receipts	<u>125,450</u>	<u>125,755</u>	<u>106,018</u>	<u>(19,737)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	612,350	631,048	618,897	12,151
Administration	60,700	118,170	107,853	10,317
Total Disbursements	<u>673,050</u>	<u>749,218</u>	<u>726,750</u>	<u>22,468</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(547,600)</u>	<u>(623,463)</u>	<u>(620,732)</u>	<u>2,731</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	537,600	612,000	612,000	
Total Other Adjustments to Cash (Uses)	<u>537,600</u>	<u>612,000</u>	<u>612,000</u>	
Net Change in Fund Balance	(10,000)	(11,463)	(8,732)	2,731
Fund Balance - Beginning	<u>10,000</u>	<u>11,463</u>	<u>11,463</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,731</u>	<u>\$ 2,731</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,043,000	\$ 1,091,644	\$ 1,010,858	\$ (80,786)
Charges for Services	32,000	32,000	26,253	(5,747)
Miscellaneous	41,000	59,598	32,760	(26,838)
Interest	800	1,724	1,540	(184)
Total Receipts	<u>1,116,800</u>	<u>1,184,966</u>	<u>1,071,411</u>	<u>(113,555)</u>
<b>DISBURSEMENTS</b>				
General Government	28,250	57,806	55,411	2,395
Protection to Persons and Property	171,626	184,287	170,447	13,840
General Health and Sanitation	179,350	192,985	155,924	37,061
Social Services	214,800	215,620	205,245	10,375
Recreation and Culture	399,500	552,972	521,851	31,121
Roads	76,500	79,758	79,322	436
Administration	343,274	304,112	261,475	42,637
Total Disbursements	<u>1,413,300</u>	<u>1,587,540</u>	<u>1,449,675</u>	<u>137,865</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(296,500)</u>	<u>(402,574)</u>	<u>(378,264)</u>	<u>24,310</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	277,000	542,120	542,120	
Transfers To Other Funds	(115,500)	(150,000)	(150,000)	
Total Other Adjustments to Cash (Uses)	<u>161,500</u>	<u>392,120</u>	<u>392,120</u>	
Net Change in Fund Balance	(135,000)	(10,454)	13,856	24,310
Fund Balance - Beginning	<u>135,000</u>	<u>10,454</u>	<u>10,454</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 24,310</u>	<u>\$ 24,310</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>STATE GRANTS FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 620,000	\$ 876,072	\$ 876,072	\$
Miscellaneous	5,000	5,000	110	(4,890)
Interest	650	3,109	3,116	7
Total Receipts	<u>625,650</u>	<u>884,181</u>	<u>879,298</u>	<u>(4,883)</u>
<b>DISBURSEMENTS</b>				
General Government	1,000	3,719	3,719	
Protection to Persons and Property	66,000	50,002	50,000	2
General Health and Sanitation	11,500	150,001	150,000	1
Social Services	40,000	25,001	12,575	12,426
Recreation and Culture	18,500	114,895	114,893	2
Capital Projects	5,000	1		1
Administration	88,750			
Total Disbursements	<u>230,750</u>	<u>343,619</u>	<u>331,187</u>	<u>12,432</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>394,900</u>	<u>540,562</u>	<u>548,111</u>	<u>7,549</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds		48,969	5,000	(43,969)
Transfers To Other Funds	(414,900)	(1,404,069)	(1,314,493)	89,576
Total Other Adjustments to Cash (Uses)	<u>(414,900)</u>	<u>(1,355,100)</u>	<u>(1,309,493)</u>	<u>45,607</u>
Net Change in Fund Balance	(20,000)	(814,538)	(761,382)	53,156
Fund Balance - Beginning	20,000	814,538	814,538	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 53,156</u>	<u>\$ 53,156</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>FEDERAL GRANTS FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 301,000	\$ 301,000	\$ 200,000	\$ (101,000)
Interest	3	3		(3)
Total Receipts	<u>301,003</u>	<u>301,003</u>	<u>200,000</u>	<u>(101,003)</u>
<b>DISBURSEMENTS</b>				
General Health and Sanitation	1,000	1,000		1,000
Capital Projects	300,000	300,000	200,000	100,000
Administration	299	306		306
Total Disbursements	<u>301,299</u>	<u>301,306</u>	<u>200,000</u>	<u>101,306</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(296)</u>	<u>(303)</u>		<u>303</u>
Net Change in Fund Balance	(296)	(303)		303
Fund Balance - Beginning	<u>296</u>	<u>303</u>	<u>303</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 303</u>	<u>\$ 303</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

**EMERGENCY MANAGEMENT FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 23,000	\$ 460,133	\$ 457,095	\$ (3,038)
Interest	300	500	471	(29)
Total Receipts	<u>23,300</u>	<u>460,633</u>	<u>457,566</u>	<u>(3,067)</u>
<b>DISBURSEMENTS</b>				
Administration	3,300	7,918		7,918
Total Disbursements	<u>3,300</u>	<u>7,918</u>		<u>7,918</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>20,000</u>	<u>452,715</u>	<u>457,566</u>	<u>4,851</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	(25,000)	(458,975)	(463,645)	(4,670)
Total Other Adjustments to Cash (Uses)	<u>(25,000)</u>	<u>(458,975)</u>	<u>(463,645)</u>	<u>(4,670)</u>
Net Change in Fund Balance	(5,000)	(6,260)	(6,079)	181
Fund Balance - Beginning	5,000	6,260	6,260	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 181</u>	<u>\$ 181</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>FORESTRY FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 3,775	\$ 3,775	\$ 3,265	\$ (510)
Total Receipts	<u>3,775</u>	<u>3,775</u>	<u>3,265</u>	<u>(510)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	2,500	2,500	2,118	382
Administration	<u>2,475</u>	<u>3,625</u>	<u>2,118</u>	<u>3,625</u>
Total Disbursements	<u>4,975</u>	<u>6,125</u>	<u>2,118</u>	<u>4,007</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,200)</u>	<u>(2,350)</u>	<u>1,147</u>	<u>3,497</u>
Net Change in Fund Balance	(1,200)	(2,350)	1,147	3,497
Fund Balance - Beginning	<u>1,200</u>	<u>2,350</u>	<u>2,350</u>	<u>2,350</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,497</u>	<u>\$ 3,497</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

<b>SPORTS COMPLEX FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Charges for Services	\$ 333,000	\$ 333,000	\$ 331,276	\$ (1,724)
Miscellaneous	9,000	16,089	9,665	(6,424)
Interest	200	470	461	(9)
Total Receipts	<u>342,200</u>	<u>349,559</u>	<u>341,402</u>	<u>(8,157)</u>
<b>DISBURSEMENTS</b>				
Recreation and Culture	484,665	522,212	473,993	48,219
Administration	63,950	71,316	52,922	18,394
Total Disbursements	<u>548,615</u>	<u>593,528</u>	<u>526,915</u>	<u>66,613</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(206,415)</u>	<u>(243,969)</u>	<u>(185,513)</u>	<u>58,456</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	199,915	221,782	166,868	(54,914)
Total Other Adjustments to Cash (Uses)	<u>199,915</u>	<u>221,782</u>	<u>166,868</u>	<u>(54,914)</u>
Net Change in Fund Balance	(6,500)	(22,187)	(18,645)	3,542
Fund Balance - Beginning	<u>6,500</u>	<u>22,187</u>	<u>22,187</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,542</u>	<u>\$ 3,542</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(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	\$ 94,717	\$ (8,783)
Miscellaneous	100	100	74	(26)
Interest	180	677	672	(5)
Total Receipts	<u>103,780</u>	<u>104,277</u>	<u>95,463</u>	<u>(8,814)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	104,000	105,900	78,408	27,492
Administration	14,280	20,382		20,382
Total Disbursements	<u>118,280</u>	<u>126,282</u>	<u>78,408</u>	<u>47,874</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(14,500)</u>	<u>(22,005)</u>	<u>17,055</u>	<u>39,060</u>
Net Change in Fund Balance	(14,500)	(22,005)	17,055	39,060
Fund Balance - Beginning	14,500	22,005	22,005	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 39,060</u>	<u>\$ 39,060</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>DEBT SERVICE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 472,500	\$ 474,500	\$ 474,500	\$ -
Interest	300	300	165	(135)
Total Receipts	<u>472,800</u>	<u>474,800</u>	<u>474,665</u>	<u>(135)</u>
<b>DISBURSEMENTS</b>				
Debt Service	1,127,700	1,129,700	1,044,100	85,600
Administration	10,000	40,771		40,771
Total Disbursements	<u>1,137,700</u>	<u>1,170,471</u>	<u>1,044,100</u>	<u>126,371</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(664,900)</u>	<u>(695,671)</u>	<u>(569,435)</u>	<u>126,236</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	414,900	695,675	569,600	(126,075)
Transfers To Other Funds		(21,869)	(21,868)	1
Total Other Adjustments to Cash (Uses)	<u>414,900</u>	<u>673,806</u>	<u>547,732</u>	<u>(126,074)</u>
Net Change in Fund Balance	(250,000)	(21,865)	(21,703)	162
Fund Balance - Beginning	<u>250,000</u>	<u>21,865</u>	<u>21,865</u>	<u></u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 162</u>	<u>\$ 162</u>

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

**June 30, 2019**

**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.

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

**For The Year Ended June 30, 2019**

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

**For The Year Ended June 30, 2019**

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	25,598,195	265,540		25,863,735
Vehicles and Equipment	2,388,936	50,439		2,439,375
Infrastructure	10,812,367	930,098		11,742,465
 Total Capital Assets	 \$ 39,854,003	 \$ 1,246,077	 \$ 0	 \$ 41,100,080

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

**June 30, 2019**

**Note 1. Capital Assets**

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

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

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

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

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 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 Knott County Fiscal Court for the fiscal year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the Knott County Fiscal Court's financial statement and have issued our report thereon dated December 19, 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 Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Knott County Fiscal Court's internal control.

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

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 deficiency described in the accompanying Schedule of Findings and Responses as item 2019-001 to be a material weakness.



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)

**Internal Control Over Financial Reporting (Continued)**

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-002, 2019-003, 2019-004 and 2019-005 to be significant deficiencies.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Knott County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2019-001.

**Views of Responsible Official and Planned Corrective Action**

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

**Purpose of this Report**

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

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

December 19, 2019

**KNOTT COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2019**

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**KNOTT COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2019**

FINANCIAL STATEMENT FINDINGS:

2019-001 Fund Transfers Were Not Approved By The Fiscal Court In Advance

---

The Knott County Fiscal Court did not have all fund transfers approved by the fiscal court before executing the transfer. The lack of oversight over cash transfers resulted in unauthorized transfers. Without proper oversight and approval from the fiscal court, undetected misappropriation and fraud could occur. When cash transfers are made without approval of the fiscal court, money can be moved between funds to cover disbursements without the knowledge of fiscal court. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* states "[a]ll transfers require a court order." We recommend the fiscal court require all cash transfers be approved by the fiscal court prior to the transfer being made.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: This is an issue we continue to work on, however lack of excess funds makes any viable solution impractical.*

2019-002 The Knott County Fiscal Court Lacks Adequate Controls Over Disbursements

---

The Knott County Fiscal Court does not have adequate controls over disbursements. Of the 80 items tested, eight invoices were not paid within 30 days and four invoices did not have a purchase order issued. The lack of available funds caused invoices to be paid late, and a lack of internal controls over the purchase orders system allowed invoices to be paid that had not went through the purchase order system. Weak controls over disbursements increase the risk of misstatements of financial activity. Payments could be paid to vendors that may not be a true liability to the fiscal court. Funds could be misused as intended or invoices could go unaccounted for, resulting in late fees being incurred.

Proper internal controls over disbursements are important to ensure purchase orders are created when sufficient funds are available, are presented to the fiscal court, include proper supporting documentation, and are paid within 30 days. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, "purchases shall not be made without approval by the judge/executive (or designee), and/or a department head. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made."

KRS 68.300 states, in part, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void." KRS 68.275 requires claims within budget line items and authorized by the fiscal court be paid by the county judge/executive and co-signed by the county treasurer. In addition, KRS 65.140 requires invoices to be paid within 30 days of being received.

We recommend the fiscal court implement proper internal controls over disbursements and ensure they are operating effectively.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Eight invoices were paid outside the 30 day requirement. The Fiscal Court continues to pay all bills timely, unfortunately the Court lacks the excess funds to pay very large expenses all at once. Example the 200k property-liability insurance bill.*

**KNOTT COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2019**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-003 Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented Or Recorded

---

The Knott County Fiscal Court had credit card expenditures that could not be properly validated and were not properly supported or recorded. Of the credit card statements tested there were 47 transactions, of which, 14 receipts were not attached and there was finance charge of \$35. Of these 47 transactions 13 were not recorded in their proper line item on the financial statement and 22 could not be determined whether they were properly recorded due to not having a receipt or explanation of use. Also, process of purchase orders is not being using for credit card purchases.

The fiscal court has lax oversight over credit card use and is not reconciling card statements to receipts to ensure that all receipts are accounted for and are properly recorded. The lack of oversight by the fiscal court over the use of credit cards could allow charges that do not meet a public purpose for the county. Strong internal controls dictate that there be procedures in place that reconcile monthly credit card receipts submitted to the credit card statement. All receipts for credit card transactions should be attached to the statement and filed. An explanation should be maintained to support expenses to ensure that expenses are proper use of county funds.

We recommend that the fiscal court have more control of credit card usage, ensure that receipts are attached to credit card statement and require documentation of the reason the card was used. Also, we recommend that each expenditure is recorded in its proper financial statement line and purchase orders are issued for all transactions.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: We are considering only using the credit card, in emergency situations.*

2019-004 The Fiscal Court Lacks Adequate Internal Controls At The Knott County Sportsplex

---

This is a repeat finding and was included in the prior year audit report as finding 2018-002. Our review of the receipts and disbursement process for the Knott County Sportsplex revealed weaknesses in internal controls that should be addressed. The Knott County Sportsplex collects money for rental fees, membership fees, concessions, front door ticket sales, driving range, arcades, advertisements, and vending machines. During basketball season, referees are paid out of the front door cash receipts. The sportsplex director calculates the sales report and deposit, faxes the daily checkout sheet to the county treasurer, and makes the daily deposit. If referees are paid out of the cash drawer, the amount is listed on the daily checkout sheet to reduce cash receipts from the day's business. The fiscal court did not implement good internal controls over receipts. Because internal controls are not in place for receipts, money could be misappropriated and go undetected. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* states, "disbursements by check only." Good internal controls over cash receipts help safeguard assets from employee theft, robbery, and unauthorized use. Good internal controls also enhance the accuracy and reliability of accounting records by reducing the risk of errors, intentional mistakes, and misrepresentations in the accounting process.

**KNOTT COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2019**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-004 The Fiscal Court Lacks Adequate Internal Controls At The Knott County Sportsplex (Continued)

Due to the high volume of cash transactions and not accounting for significant amounts of revenue, we recommend the county implement the following procedures:

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

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The Fiscal Court has implemented various controls to help this situation for example a point of sales system. The Court is always trying to increase internal controls at the Sportsplex.*

2019-005 The Knott County Fiscal Court Does Not Have Adequate Controls Over Payroll

We noted the following deficiencies during our test of payroll out of the 12 timesheets tested:

- Three timesheets were not signed by a supervisor.
- One timesheet was missing.
- Three employees' payroll summaries did not agree to their leave report or to their timesheet.
- An employee received health insurance benefits but did not have health insurance premiums withheld from their payroll check.

This was due to a lack of adequate controls over payroll and withholdings of health insurance. Because the county failed to maintain signed timesheets, employee hours worked could not be substantiated. Good internal controls require reconciling insurance invoices on a regular basis to be sure that employees that are receiving more than a single coverage plan are paying their portion of premiums.

KRS 337.320 states, "[e]very employer shall keep a record of: (a) the amount paid each pay period to each employee; (b) the hours worked each day and each week by each employee...". In addition, good internal controls dictate that personnel files maintained contain documentation verifying any deductions from an employee's payroll check. The administrative code requires the fiscal court to pay the basic premium cost of each full-time employee's health insurance. If the employee desires an upgraded plan or adds a dependent and/or spouse to the plan, the employee shall be responsible for the extra cost for the additional coverage.

We recommend the fiscal court strengthen controls over payroll to ensure timecards are prepared each pay period for all employees. All timesheets should be signed by employees and their supervisor. We also recommend that the fiscal court improve controls over health insurance to ensure that employees are paying their portion of health insurance premiums.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The Fiscal Court has the controls needed to safe guard the payroll process. In the future we will double check signatures on time cards. We will update the insurance deductions more often.*

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

**KNOTT COUNTY FISCAL COURT**

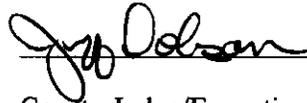
**For The Year Ended June 30, 2019**

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**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE**  
**COUNTY FISCAL COURT**

For The Year Ended June 30, 2019

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



County Judge/Executive



County Treasurer