

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

**For The Year Ended  
June 30, 2020**



**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**



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
KNOTT COUNTY OFFICIALS .....	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	6
NOTES TO FINANCIAL STATEMENT.....	10
BUDGETARY COMPARISON SCHEDULES.....	25
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES.....	36
SCHEDULE OF CAPITAL ASSETS.....	39
NOTES TO OTHER INFORMATION - REGULATORY BASIS SCHEDULE OF CAPITAL ASSETS.....	40
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	43
SCHEDULE OF FINDINGS AND RESPONSES .....	47
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	

THIS PAGE LEFT BLANK INTENTIONALLY



**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  
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, 2020, 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.



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  
Members of the Knott County Fiscal Court

### **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, 2020, 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, 2020, 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 the 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.

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.

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  
Members of the Knott County Fiscal Court

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2020, 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:

- 2020-001 Fund Transfers Were Not Approved By The Fiscal Court In Advance
- 2020-002 The Knott County Fiscal Court Does Not Have Adequate Controls Over Disbursements
- 2020-003 Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented Or Recorded
- 2020-004 The Fiscal Court Does Not Have Adequate Internal Controls At The Knott County Sportsplex
- 2020-005 The Fiscal Court Does Not Have Adequate Internal Controls At The Mine Made Adventure Park And Campground
- 2020-006 Disbursements Exceeded Approved Budget Appropriations

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

December 16, 2020

**KNOTT COUNTY OFFICIALS**

**For The Year Ended June 30, 2020**

**Fiscal Court Members:**

Jeff Dobson	County Judge/Executive
Avery Shrum	Magistrate
Calvin Waddles	Magistrate
Langus Martin	Magistrate
Kenny Dyer	Magistrate

**Other Elected Officials:**

Tim Bates	County Attorney
Robby Slone	Jailer
Maurica Cornett	County Clerk
Lisa Bolen	Circuit Court Clerk
Dale Richardson	Sheriff
Edward Slone	Property Valuation Administrator
Cory 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, 2020**

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

**For The Year Ended June 30, 2020**

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
<b>RECEIPTS</b>			
Taxes	\$ 1,751,040	\$	\$
In Lieu Tax Payments	13,273		
Excess Fees	70,302		
Intergovernmental	333,384	1,883,206	105,001
Charges for Services	108,564		
Miscellaneous	299,382	1,328	
Interest	3,876	5,656	645
Total Receipts	<u>2,579,821</u>	<u>1,890,190</u>	<u>105,646</u>
<b>DISBURSEMENTS</b>			
General Government	1,002,482		
Protection to Persons and Property	2,043		773,978
General Health and Sanitation	2,300		
Social Services			
Recreation and Culture			
Roads		1,466,381	
Debt Service	3,172	90,292	
Capital Projects		51,653	
Administration	955,512	140,740	45,235
Total Disbursements	<u>1,965,509</u>	<u>1,749,066</u>	<u>819,213</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>614,312</u>	<u>141,124</u>	<u>(713,567)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Financing Obligation Proceeds			
Transfers From Other Funds	285,500	35,781	712,500
Transfers To Other Funds	(917,500)	(221,000)	
Total Other Adjustments to Cash (Uses)	<u>(632,000)</u>	<u>(185,219)</u>	<u>712,500</u>
Net Change in Fund Balance	(17,688)	(44,095)	(1,067)
Fund Balance - Beginning	80,833	46,591	2,731
Fund Balance - Ending	<u>\$ 63,145</u>	<u>\$ 2,496</u>	<u>\$ 1,664</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 71,578	\$ 5,118	\$ 2,066
Plus: Deposits In Transit		2,500	
Less: Outstanding Checks	(8,433)	(5,122)	(402)
Fund Balance - Ending	<u>\$ 63,145</u>	<u>\$ 2,496</u>	<u>\$ 1,664</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, 2020**  
**(Continued)**

<b>Budgeted Funds</b>					
<b>Local Government Economic Assistance Fund</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>
\$	\$	\$	\$	\$ 3,155	\$
1,247,690	895,488	199,000	22,549		
57,089					257,783
57,004					5,768
4,177	1,907		76	80	290
<u>1,365,960</u>	<u>897,395</u>	<u>199,000</u>	<u>22,625</u>	<u>3,235</u>	<u>263,841</u>
27,801				2,118	
189,797	50,000				
114,889					
158,477	33,220				
512,775	13,885				436,413
47,075	121,420				
		199,000			
234,948	58,000				55,164
<u>1,285,762</u>	<u>276,525</u>	<u>199,000</u>		<u>2,118</u>	<u>491,577</u>
<u>80,198</u>	<u>620,870</u>		<u>22,625</u>	<u>1,117</u>	<u>(227,736)</u>
	61,500				
109,284	77,500				226,000
(213,735)	(806,246)		(22,546)		
(104,451)	(667,246)		(22,546)		226,000
(24,253)	(46,376)		79	1,117	(1,736)
24,311	53,156	303	182	3,497	3,542
<u>\$ 58</u>	<u>\$ 6,780</u>	<u>\$ 303</u>	<u>\$ 261</u>	<u>\$ 4,614</u>	<u>\$ 1,806</u>
\$ 15,050	\$ 56,762	\$ 303	\$ 261	\$ 4,614	\$ 3,241
(14,992)	(49,982)				719
					(2,154)
<u>\$ 58</u>	<u>\$ 6,780</u>	<u>\$ 303</u>	<u>\$ 261</u>	<u>\$ 4,614</u>	<u>\$ 1,806</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, 2020**  
**(Continued)**

	<u>Budgeted Funds</u>		
	<u>E-911 Fund</u>	<u>Debt Service Fund</u>	<u>Total Funds</u>
<b>RECEIPTS</b>			
Taxes	\$ 95,181	\$	\$ 1,849,376
In Lieu Tax Payments			13,273
Excess Fees			70,302
Intergovernmental		474,506	5,160,824
Charges for Services			423,436
Miscellaneous			363,482
Interest	720	108	17,535
Total Receipts	<u>95,901</u>	<u>474,614</u>	<u>7,898,228</u>
<b>DISBURSEMENTS</b>			
General Government			1,032,401
Protection to Persons and Property	89,067		1,104,885
General Health and Sanitation			117,189
Social Services			191,697
Recreation and Culture			963,073
Roads			1,634,876
Debt Service		1,208,968	1,302,432
Capital Projects			250,653
Administration	73		1,489,672
Total Disbursements	<u>89,140</u>	<u>1,208,968</u>	<u>8,086,878</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>6,761</u>	<u>(734,354)</u>	<u>(188,650)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Financing Obligation Proceeds			61,500
Transfers From Other Funds		734,462	2,181,027
Transfers To Other Funds			(2,181,027)
Total Other Adjustments to Cash (Uses)		<u>734,462</u>	<u>61,500</u>
Net Change in Fund Balance	6,761	108	(127,150)
Fund Balance - Beginning	<u>39,059</u>	<u>162</u>	<u>254,367</u>
Fund Balance - Ending	<u>\$ 45,820</u>	<u>\$ 270</u>	<u>\$ 127,217</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 38,004	\$ 270	\$ 197,267
Plus: Deposits In Transit	7,816		11,035
Less: Outstanding Checks			(81,085)
Fund Balance - Ending	<u>\$ 45,820</u>	<u>\$ 270</u>	<u>\$ 127,217</u>

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

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	10
NOTE 2.	DEPOSITS .....	13
NOTE 3.	TRANSFERS.....	14
NOTE 4.	LONG-TERM DEBT .....	14
NOTE 5.	EMPLOYEE RETIREMENT SYSTEM .....	18
NOTE 6.	DEFERRED COMPENSATION.....	22
NOTE 7.	HEALTH REIMBURSEMENT ACCOUNT .....	22
NOTE 8.	INSURANCE.....	22

**KNOTT COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2020**

**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.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

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

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

**Budgeted Funds (Continued)**

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

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

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

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.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

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

**D. Budgetary Information**

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

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

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

**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).



**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

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

**G. Long-term Obligations**

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

**H. 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 following is considered a joint venture of the Knott Fiscal Court:

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 federally insured banking institutions as required by the Department for Local Government’s (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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 the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of June 30, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2020.

	General Fund	Road Fund	LGEA Fund	State Grant Fund	Emergency Management Fund	Total Transfers In
General Fund	\$	\$ 221,000		\$ 64,500		\$ 285,500
Road Fund	15,000		13,735		7,046	35,781
Jail Fund	552,500		160,000			712,500
LGEA Fund	86,500			7,284	15,500	109,284
State Grants Fund	77,500					77,500
Sports Complex Fund	186,000		40,000			226,000
Debt Service Fund				734,462		734,462
Total Transfers Out	<u>\$917,500</u>	<u>\$ 221,000</u>	<u>\$ 213,735</u>	<u>\$806,246</u>	<u>\$ 22,546</u>	<u>\$ 2,181,027</u>

Reason for transfers:

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

**Note 4. Long-term Debt**

**A. Direct Borrowings and Direct Placements**

**1. Financing Obligation - Excavator**

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, 2020. 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
2021	\$ 33,220	\$ 604
2022	<u>2,813</u>	<u>7</u>
Totals	<u>\$ 36,033</u>	<u>\$ 611</u>

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

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

**A. Direct Borrowings and Direct Placements (Continued)**

**2. Financing Obligation - Mini-Excavator**

The Knott County Fiscal Court entered into an agreement with the Department for Local Government, Office of Federal Grants Recreational Trails Program during the year ended June 30, 2020, for a lease of an excavator with CAT Financial for the ATV project that will provide trail restoration, trailside facilities (signage) purchased and installed. The project is federally funded by the federal Highway Administration and will expire October 1, 2021. Payments for the remaining years are as follows;

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 39,303	\$ 1,458
2022	5,500	707
2023	5,700	506
2024	5,908	298
2025	5,089	84
Totals	<u>\$ 61,500</u>	<u>\$ 3,053</u>

**3. Financing Obligation - Refinancing**

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, 2020, the remaining principal balance outstanding was \$4,460,000. Payments for the remaining years are as follows:

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

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

**A. Direct Borrowings and Direct Placements (Continued)**

**3. Financing Obligation - Refinancing (Continued)**

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 500,000	\$ 137,900
2022	515,000	121,425
2023	525,000	104,538
2024	550,000	87,100
2025	565,000	69,000
2026-2028	<u>1,805,000</u>	<u>92,738</u>
Totals	<u>\$ 4,460,000</u>	<u>\$ 612,701</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, 2020, the principal balance outstanding was \$1,350,000. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 435,000	\$ 35,137
2022	450,000	21,863
2023	<u>465,000</u>	<u>7,556</u>
Totals	<u>\$ 1,350,000</u>	<u>\$ 64,556</u>

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

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

**B. Other Debt (Continued)**

**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. 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, 2020, the principal balance outstanding was \$1,005,000. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 45,000	\$ 46,648
2022	50,000	44,160
2023	55,000	41,410
2024	55,000	38,522
2025	55,000	35,635
2026-2030	675,000	104,075
2031-2033	70,000	6,200
Totals	<u>\$ 1,005,000</u>	<u>\$ 316,650</u>

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

Long-term Debt activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 5,005,654	\$ 61,500	\$ 509,621	\$ 4,557,533	\$ 572,523
Revenue Bonds	2,825,000		470,000	2,355,000	480,000
Total Long-term Debt	<u>\$ 7,830,654</u>	<u>\$ 61,500</u>	<u>\$ 979,621</u>	<u>\$ 6,912,533</u>	<u>\$ 1,052,523</u>

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

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

**D. Aggregate Debt**

<b>Fiscal Year Ended June 30</b>	<b>Other Debt</b>		<b>Direct Borrowings and Direct Placements</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2021	\$ 480,000	\$ 81,785	\$ 572,523	\$ 139,962
2022	500,000	66,023	523,313	122,139
2023	520,000	48,966	530,700	105,044
2024	55,000	38,522	555,908	87,398
2025	55,000	35,635	570,089	69,084
2026-2030	675,000	104,075	1,805,000	92,738
2031-2035	70,000	6,200		
<b>Totals</b>	<b>\$ 2,355,000</b>	<b>\$ 381,206</b>	<b>\$ 4,557,533</b>	<b>\$ 616,365</b>

**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 2018 was \$466,720, FY 2019 was \$490,673, and FY 2020 was \$499,112.

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.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

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

Nonhazardous (Continued)

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

The county's contribution rate for nonhazardous employees was 24.06 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.

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 39.58 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:

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

<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.

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.



**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

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

Other Post-Employment Benefits (OPEB) (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 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.

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.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(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 the Kentucky Public Employees' Deferred Compensation Authority at 501 High Street, 2nd Floor, Frankfort, KY 40601, 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, 2020, 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, 2020**

THIS PAGE LEFT BLANK INTENTIONALLY

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

**For The Year Ended June 30, 2020**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 1,992,300	\$ 2,039,351	\$ 1,751,040	\$ (288,311)
In Lieu Tax Payments	10,350	13,274	13,273	(1)
Excess Fees	60,000	87,742	70,302	(17,440)
Intergovernmental	359,600	362,509	333,384	(29,125)
Charges for Services	148,000	148,000	108,564	(39,436)
Miscellaneous	246,600	309,290	299,382	(9,908)
Interest	2,400	3,766	3,876	110
Total Receipts	<u>2,819,250</u>	<u>2,963,932</u>	<u>2,579,821</u>	<u>(384,111)</u>
<b>DISBURSEMENTS</b>				
General Government	978,060	1,060,390	1,002,482	57,908
Protection to Persons and Property	1,500	3,000	2,043	957
General Health and Sanitation	4,000	4,000	2,300	1,700
Debt Service	3,172	3,172	3,172	
Administration	1,155,953	1,074,203	955,512	118,691
Total Disbursements	<u>2,142,685</u>	<u>2,144,765</u>	<u>1,965,509</u>	<u>179,256</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>676,565</u>	<u>819,167</u>	<u>614,312</u>	<u>(204,855)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	221,000	285,500	285,500	
Transfers To Other Funds	<u>(1,062,565)</u>	<u>(1,185,500)</u>	<u>(917,500)</u>	268,000
Total Other Adjustments to Cash (Uses)	<u>(841,565)</u>	<u>(900,000)</u>	<u>(632,000)</u>	<u>268,000</u>
Net Change in Fund Balance	(165,000)	(80,833)	(17,688)	63,145
Fund Balance - Beginning	<u>165,000</u>	<u>80,833</u>	<u>80,833</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 63,145</u>	<u>\$ 63,145</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,843,700	\$ 2,204,815	\$ 1,883,206	\$ (321,609)
Miscellaneous	6,000	6,000	1,328	(4,672)
Interest	3,500	5,699	5,656	(43)
Total Receipts	<u>1,853,200</u>	<u>2,216,514</u>	<u>1,890,190</u>	<u>(326,324)</u>
<b>DISBURSEMENTS</b>				
Roads	1,303,333	1,506,983	1,466,381	40,602
Debt Service	116,048	117,598	90,292	27,306
Capital Projects	115,000	51,660	51,653	7
Administration	247,819	385,410	140,740	244,670
Total Disbursements	<u>1,782,200</u>	<u>2,061,651</u>	<u>1,749,066</u>	<u>312,585</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>71,000</u>	<u>154,863</u>	<u>141,124</u>	<u>(13,739)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds		33,282	35,781	2,499
Transfers To Other Funds	(221,000)	(234,736)	(221,000)	13,736
Total Other Adjustments to Cash (Uses)	<u>(221,000)</u>	<u>(201,454)</u>	<u>(185,219)</u>	<u>16,235</u>
Net Change in Fund Balance	(150,000)	(46,591)	(44,095)	2,496
Fund Balance - Beginning	<u>150,000</u>	<u>46,591</u>	<u>46,591</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,496</u>	<u>\$ 2,496</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 116,250	\$ 116,589	\$ 105,001	\$ (11,588)
Miscellaneous	1,000	1,000		(1,000)
Interest	370	669	645	(24)
Total Receipts	<u>117,620</u>	<u>118,258</u>	<u>105,646</u>	<u>(12,612)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property Administration	676,600	782,045	773,978	8,067
	61,670	51,444	45,235	6,209
Total Disbursements	<u>738,270</u>	<u>833,489</u>	<u>819,213</u>	<u>14,276</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(620,650)</u>	<u>(715,231)</u>	<u>(713,567)</u>	<u>1,664</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	610,650	712,500	712,500	
Total Other Adjustments to Cash (Uses)	<u>610,650</u>	<u>712,500</u>	<u>712,500</u>	
Net Change in Fund Balance	(10,000)	(2,731)	(1,067)	1,664
Fund Balance - Beginning	<u>10,000</u>	<u>2,731</u>	<u>2,731</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,664</u>	<u>\$ 1,664</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 945,000	\$ 1,439,096	\$ 1,247,690	\$ (191,406)
Charges for Services	35,001	53,619	57,089	3,470
Miscellaneous	38,500	60,149	57,004	(3,145)
Interest	800	4,189	4,177	(12)
Total Receipts	<u>1,019,301</u>	<u>1,557,053</u>	<u>1,365,960</u>	<u>(191,093)</u>
<b>DISBURSEMENTS</b>				
General Government	27,090	29,040	27,801	1,239
Protection to Persons and Property	173,026	199,831	189,797	10,034
General Health and Sanitation	180,650	199,135	114,889	84,246
Social Services	131,550	164,550	158,477	6,073
Recreation and Culture	384,650	578,112	512,775	65,337
Roads	45,500	47,265	47,075	190
Administration	444,835	538,431	234,948	303,483
Total Disbursements	<u>1,387,301</u>	<u>1,756,364</u>	<u>1,285,762</u>	<u>470,602</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(368,000)</u>	<u>(199,311)</u>	<u>80,198</u>	<u>279,509</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	270,000	388,736	109,284	(279,452)
Transfers To Other Funds		<u>(213,736)</u>	<u>(213,735)</u>	<u>1</u>
Total Other Adjustments to Cash (Uses)	<u>270,000</u>	<u>175,000</u>	<u>(104,451)</u>	<u>(279,451)</u>
Net Change in Fund Balance	(98,000)	(24,311)	(24,253)	58
Fund Balance - Beginning	<u>98,000</u>	<u>24,311</u>	<u>24,311</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 58</u>	<u>\$ 58</u>



**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

	<b>STATE GRANTS FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 756,000	\$ 895,488	\$ 895,488	\$
Miscellaneous	1,000	1,000		(1,000)
Interest	1,750	2,000	1,907	(93)
Total Receipts	<u>758,750</u>	<u>898,488</u>	<u>897,395</u>	<u>(1,093)</u>
<b>DISBURSEMENTS</b>				
General Government	100	100		100
Protection to Persons and Property	66,000	53,091	50,000	3,091
General Health and Sanitation	5,100	101		101
Social Services	20,000	33,220	33,220	
Recreation and Culture	8,000	13,891	13,885	6
Roads		59,920	121,420	(61,500)
Administration	11,188	69,859	58,000	11,859
Total Disbursements	<u>110,388</u>	<u>230,182</u>	<u>276,525</u>	<u>(46,343)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>648,362</u>	<u>668,306</u>	<u>620,870</u>	<u>(47,436)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Financing Obligation Proceeds			61,500	61,500
Transfers From Other Funds		91,984	77,500	(14,484)
Transfers To Other Funds	(651,862)	(813,446)	(806,246)	7,200
Total Other Adjustments to Cash (Uses)	<u>(651,862)</u>	<u>(721,462)</u>	<u>(667,246)</u>	<u>54,216</u>
Net Change in Fund Balance	(3,500)	(53,156)	(46,376)	6,780
Fund Balance - Beginning	<u>3,500</u>	<u>53,156</u>	<u>53,156</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,780</u>	<u>\$ 6,780</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

	<b>FEDERAL GRANTS FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 301,003	\$ 301,003	\$ 199,000	\$ (102,003)
Total Receipts	<u>301,003</u>	<u>301,003</u>	<u>199,000</u>	<u>(102,003)</u>
<b>DISBURSEMENTS</b>				
General Health and Sanitation	1,000	1,000		1,000
Capital Projects	300,000	300,000	199,000	101,000
Administration	307	308		308
Total Disbursements	<u>301,307</u>	<u>301,308</u>	<u>199,000</u>	<u>102,308</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(304)</u>	<u>(305)</u>		<u>305</u>
Net Change in Fund Balance	(304)	(305)		305
Fund Balance - Beginning	<u>304</u>	<u>305</u>	<u>303</u>	<u>(2)</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, 2020**  
**(Continued)**

	<b>EMERGENCY MANAGEMENT FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 23,000	\$ 25,046	\$ 22,549	\$ (2,497)
Interest	150	150	76	(74)
Total Receipts	<u>23,150</u>	<u>25,196</u>	<u>22,625</u>	<u>(2,571)</u>
<b>DISBURSEMENTS</b>				
Roads	10,000	300		300
Administration	150	32		32
Total Disbursements	<u>10,150</u>	<u>332</u>		<u>332</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>13,000</u>	<u>24,864</u>	<u>22,625</u>	<u>(2,239)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	<u>(18,000)</u>	<u>(25,046)</u>	<u>(22,546)</u>	<u>2,500</u>
Total Other Adjustments to Cash (Uses)	<u>(18,000)</u>	<u>(25,046)</u>	<u>(22,546)</u>	<u>2,500</u>
Net Change in Fund Balance	(5,000)	(182)	79	261
Fund Balance - Beginning	<u>5,000</u>	<u>182</u>	<u>182</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 261</u>	<u>\$ 261</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

	<b>FORESTRY FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 3,515	\$ 3,515	\$ 3,155	\$ (360)
Interest	50	82	80	(2)
Total Receipts	<u>3,565</u>	<u>3,597</u>	<u>3,235</u>	<u>(362)</u>
<b>DISBURSEMENTS</b>				
General Government	2,350	2,350	2,118	232
Administration	2,415	4,744		4,744
Total Disbursements	<u>4,765</u>	<u>7,094</u>	<u>2,118</u>	<u>4,976</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,200)</u>	<u>(3,497)</u>	<u>1,117</u>	<u>4,614</u>
Net Change in Fund Balance	(1,200)	(3,497)	1,117	4,614
Fund Balance - Beginning	<u>1,200</u>	<u>3,497</u>	<u>3,497</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,614</u>	<u>\$ 4,614</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(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	\$ 357,150	\$ 357,150	\$ 257,783	\$ (99,367)
Miscellaneous	7,500	7,500	5,768	(1,732)
Interest	240	344	290	(54)
Total Receipts	<u>364,890</u>	<u>364,994</u>	<u>263,841</u>	<u>(101,153)</u>
<b>DISBURSEMENTS</b>				
Recreation and Culture	427,050	500,637	436,413	64,224
Administration	147,755	93,899	55,164	38,735
Total Disbursements	<u>574,805</u>	<u>594,536</u>	<u>491,577</u>	<u>102,959</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(209,915)</u>	<u>(229,542)</u>	<u>(227,736)</u>	<u>1,806</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>199,915</u>	<u>226,000</u>	<u>226,000</u>	
Total Other Adjustments to Cash (Uses)	<u>199,915</u>	<u>226,000</u>	<u>226,000</u>	
Net Change in Fund Balance	(10,000)	(3,542)	(1,736)	1,806
Fund Balance - Beginning	<u>10,000</u>	<u>3,542</u>	<u>3,542</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,806</u>	<u>\$ 1,806</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(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	\$ 95,181	\$ (8,319)
Miscellaneous	100	100		(100)
Interest	250	776	720	(56)
Total Receipts	<u>103,850</u>	<u>104,376</u>	<u>95,901</u>	<u>(8,475)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property Administration	87,500	92,735	89,067	3,668
	30,850	50,700	73	50,627
Total Disbursements	<u>118,350</u>	<u>143,435</u>	<u>89,140</u>	<u>54,295</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(14,500)</u>	<u>(39,059)</u>	<u>6,761</u>	<u>45,820</u>
Net Change in Fund Balance	(14,500)	(39,059)	6,761	45,820
Fund Balance - Beginning	<u>14,500</u>	<u>39,059</u>	<u>39,059</u>	<u></u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 45,820</u>	<u>\$ 45,820</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

	<b>DEBT SERVICE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 474,506	\$ 474,506	\$ 474,506	\$
Interest			108	108
Total Receipts	<u>474,506</u>	<u>474,506</u>	<u>474,614</u>	<u>108</u>
<b>DISBURSEMENTS</b>				
Debt Service	<u>1,126,368</u>	<u>1,208,968</u>	<u>1,208,968</u>	
Total Disbursements	<u>1,126,368</u>	<u>1,208,968</u>	<u>1,208,968</u>	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(651,862)</u>	<u>(734,462)</u>	<u>(734,354)</u>	<u>108</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>651,862</u>	<u>734,462</u>	<u>734,462</u>	
Total Other Adjustments to Cash (Uses)	<u>651,862</u>	<u>734,462</u>	<u>734,462</u>	
Net Change in Fund Balance			108	108
Fund Balance - Beginning			<u>162</u>	<u>162</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 270</u>	<u>\$ 270</u>

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

**June 30, 2020**

**Note 1. Budgetary Information**

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

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

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

**Note 2. Excess of Disbursements Over Appropriations**

State grants fund roads category exceeded budgeted appropriations by \$61,500.



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

**For The Year Ended June 30, 2020**

THIS PAGE LEFT BLANK INTENTIONALLY

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

**For The Year Ended June 30, 2020**

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 1,054,505	\$ 40,000	\$	\$ 1,094,505
Buildings and Improvements	25,863,735	64,699		25,928,434
Vehicles and Equipment	2,439,375	113,838		2,553,213
Infrastructure	11,742,465	279,161		12,021,626
 Total Capital Assets	 <u>\$ 41,100,080</u>	 <u>\$ 497,698</u>	 <u>\$ 0</u>	 <u>\$ 41,597,778</u>

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

**June 30, 2020**

**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

**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***

THIS PAGE LEFT BLANK INTENTIONALLY



MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jeff Dobson, 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, 2020, 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 16, 2020.

**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 2020-001 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 2020-002, 2020-003, 2020-004, and 2020-005 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2020-001 and 2020-006.

**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 16, 2020



**KNOTT COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2020**

THIS PAGE LEFT BLANK INTENTIONALLY

**KNOTT COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2020**

FINANCIAL STATEMENT FINDINGS:

2020-001 Fund Transfers Were Not Approved By The Fiscal Court In Advance

---

This is a repeat finding and was included in the prior year audit report as finding 2018-001. 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 the fiscal court. The Department for Local Government's (DLG) *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: Fiscal Court now approves transfers in advance.*

2020-002 The Knott County Fiscal Court Does Not Have Adequate Controls Over Disbursements

---

This is a repeat finding and was included in the prior year audit report as finding 2019-002. 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 (DLG) *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: The Knott Fiscal Court lacks adequate funds to pay all bills at due date. We will continue to work toward fixing this problem.*

**KNOTT COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2020**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-003 Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented Or Recorded

---

This is a repeat finding and was included in the prior year audit report at finding 2019-003. 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 70 transactions, of which, 4 receipts were not attached and there were finance charges of \$853. Of these 70 transactions 54 were not recorded in their proper line item on the financial statement and 16 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: All documentation for credit card charges are required to be turned in to [name redacted] each week.*

2020-004 The Fiscal Court Does Not Have Adequate Internal Controls At The Knott County Sportsplex

---

This is a repeat finding and was included in the prior year audit report as finding 2019-004. 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 (DLG) *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, 2020**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-004 The Fiscal Court Does Not Have 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 is working to implement all of the Auditors Recommendations. We understand better controls will be to the Fiscal Courts benefit.*

2020-005 The Fiscal Court Does Not Have Adequate Internal Controls At The Mine Made Adventure  
 Park And Campground

---

Our review of the receipts process for the Knott County Mine Made Adventure Park and Campground revealed weaknesses in internal controls that should be addressed. The Knott County Mine Made Adventure Park and Campground collects money for campsite and cabin rentals, RV storage rentals, parking fees for ATV rides, and they also sale shirts, ice, and firewood. One employee is in charge of the operations which involves collecting, reconciling, and depositing money into the bank on a weekly basis instead of daily.

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 (DLG) *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.

Due to the high volume of cash transaction, we recommend the county implement the following procedures:

- Pre-numbered receipts should be maintained for all monies collected. This accounts for all rentals and sales.
- All daily checkout sheets and deposit tickets should be signed or initialed with a supervisor's approval to verify correct amounts were collected and deposited daily.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The Fiscal Court is working to implement all of the Auditors Recommendations. We understand better controls will be to the Fiscal Courts benefit.*

**KNOTT COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2020**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-006 Disbursements Exceeded Approved Budget Appropriations

---

The fiscal court's disbursements exceeded the approved budget. The road line item in the state grants fund exceeded the appropriations by \$61,500. Budget amendments or appropriation transfers were not made to ensure the budget was not overspent. This was due to an oversight by management. Also, due to the fiscal court not recording the borrowing and expending of \$61,500, they were unaware they had overspent the budgeted appropriations. The disbursements exceeded budgeted appropriations by \$61,500 after the recording of the expenditure payment.

KRS 68.300 states, "[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. No member of the fiscal court shall vote for any such illegal appropriation or claim." Further, KRS 68.280 states, "[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby. The amendment shall be submitted to the state local finance officer subject to the same provisions as the original budget."

We recommend the fiscal court ensure all funds are properly budgeted or prepare budget amendments if necessary.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: This piece of equipment was purchased with a RTP grant. The funding was approved and due to COVID-19 the funds were held up and delayed. The estimate on the piece of machinery was only due for a limited time and we went ahead and signed the agreement on the excavator, locking us in at the estimated price. We received the equipment in April and were never billed until July, which was three months later, April, May and June, and we did not make a payment on this machine in the 2019-2020 fiscal year. The money has since been received and the machine has been paid in full. The reason it was not listed is because we had not paid any funds on the machine and no money was spent on it in that fiscal year.*

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

**KNOTT COUNTY FISCAL COURT**

**For The Year Ended June 30, 2020**

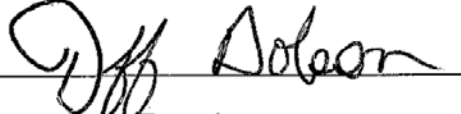
THIS PAGE LEFT BLANK INTENTIONALLY

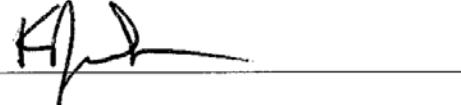


CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
KNOTT COUNTY FISCAL COURT

For The Year Ended June 30, 2020

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