

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

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



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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
JACKSON COUNTY OFFICIALS .....	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	6
NOTES TO FINANCIAL STATEMENT.....	9
BUDGETARY COMPARISON SCHEDULES.....	25
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES.....	34
SCHEDULE OF CAPITAL ASSETS.....	37
NOTES TO OTHER INFORMATION - REGULATORY BASIS SCHEDULE OF CAPITAL ASSETS.....	38
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> .....	41
SCHEDULE OF FINDINGS AND RESPONSES .....	45
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	

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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 Shane Gabbard, Jackson County Judge/Executive  
Members of the Jackson 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 Jackson County Fiscal Court, for the year ended June 30, 2020, and the related notes to the financial statement which collectively comprise the Jackson 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  
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### **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 Jackson 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 Jackson 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 Jackson 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 Jackson 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 Shane Gabbard, Jackson County Judge/Executive  
 Members of the Jackson County Fiscal Court

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2021, on our consideration of the Jackson 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 Jackson 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 The Jackson County Fiscal Court Did Not Accurately Report Financial Information On The Annual Financial Statement And The Fourth Quarter Financial Report
- 2020-002 The Jackson County Fiscal Court's Disbursements Exceeded Budgeted Appropriations For Several Funds
- 2020-003 The Jackson County Fiscal Court Did Not Have Adequate Controls Over Cash Transfers Between Funds
- 2020-004 The Jackson County Fiscal Court Did Not Have Adequate Procedures For Reporting County Liabilities
- 2020-005 The Jackson County Fiscal Court Does Not Have Adequate Procedures Over Handling Of Disbursements
- 2020-006 The Jackson County Fiscal Court Does Not Have Adequate Segregation Of Duties Over Receipts, Record Keeping, Report Preparation, And Reconciliations
- 2020-007 The Jackson County Fiscal Court Does Not Have Internal Controls Over Transfer Station Receipts And Deposits
- 2020-008 The Jackson County Fiscal Court Does Not Have Internal Controls Over Occupational Tax Collections
- 2020-009 The Jackson County Fiscal Court Does Not Have Adequate Controls Over Payroll Processing
- 2020-010 The Jackson County Jail Does Not have Segregation Of Duties Over Receipts, Disbursements, And The Bank Reconciliation Process

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

January 6, 2021

**JACKSON COUNTY OFFICIALS****For The Year Ended June 30, 2020****Fiscal Court Members:**

Shane Gabbard	County Judge/Executive
Danny Todd	Magistrate
Dale Vaughn	Magistrate
Garvin Baker	Magistrate

**Other Elected Officials:**

Ross Murray	County Attorney
Brian Gabbard	Jailer
Donald Moore	County Clerk
Doris Ward	Circuit Court Clerk
Paul Hayes	Sheriff
Paul Rose	Property Valuation Administrator
Conley Tyra	Coroner

**Appointed Personnel:**

Shay Hacker	County Treasurer
Amanda Holt	Chief Financial Officer



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

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

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

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

	<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	\$ 2,245,130	\$	\$	\$
In Lieu Tax Payments	92,991	134,666		
Excess Fees	88,788			
Intergovernmental	379,408	1,906,449	1,086,796	147,237
Charges for Services	15,830		140,450	
Miscellaneous	46,508	428,671	117	
Interest	81	276	34	67
Total Receipts	<u>2,868,736</u>	<u>2,470,062</u>	<u>1,227,397</u>	<u>147,304</u>
<b>DISBURSEMENTS</b>				
General Government	1,034,375	7,977		
Protection to Persons and Property	327,876		1,706,910	89,698
General Health and Sanitation	17,443			19,773
Social Services				16,200
Recreation and Culture	34,275			
Roads		1,859,742		19,843
Debt Service	356,849	107,733		
Capital Projects				
Administration	670,662	159,086	216,720	
Total Disbursements	<u>2,441,480</u>	<u>2,134,538</u>	<u>1,923,630</u>	<u>145,514</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>427,256</u>	<u>335,524</u>	<u>(696,233)</u>	<u>1,790</u>
<b>Other Adjustments to Cash (Uses)</b>				
Change in Payroll Revolving Account	(35,168)			
Transfers From Other Funds	579,500	150,000	694,000	
Transfers To Other Funds	(936,500)	(430,000)		
Total Other Adjustments to Cash (Uses)	<u>(392,168)</u>	<u>(280,000)</u>	<u>694,000</u>	
Net Change in Fund Balance	35,088	55,524	(2,233)	1,790
Fund Balance - Beginning	103,509	13,404	19,005	49,847
Fund Balance - Ending	<u>\$ 138,597</u>	<u>\$ 68,928</u>	<u>\$ 16,772</u>	<u>\$ 51,637</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 131,730	\$ 77,405	\$ 40,781	\$ 51,637
Reconciled Payroll Account Balance	21,297			
Add: Deposits In Transit and Receivables			11,855	
Less: Outstanding Checks and Liabilities	(19,463)	(8,477)	(35,864)	
Certificates of Deposit	5,033			
Fund Balance - Ending	<u>\$ 138,597</u>	<u>\$ 68,928</u>	<u>\$ 16,772</u>	<u>\$ 51,637</u>

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

**JACKSON COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2020**  
**(Continued)**

Budgeted Funds					Unbudgeted Funds		Total Funds
Special Grant Fund	Disaster Emergency Services Fund	Forest Fire Fund	Transfer Station Fund	911 CMRS Fund	Public Facilities Construction Corporation Fund	Jail Commissary Fund	
\$	\$	\$ 1,979	\$	\$	\$	\$	\$ 2,247,109
							227,657
							88,788
24,000	155,040		29,202	148,736	901,099		4,777,967
			313,135				469,415
						248,060	723,356
		5	19		375		857
<u>24,000</u>	<u>155,040</u>	<u>1,984</u>	<u>342,356</u>	<u>148,736</u>	<u>901,474</u>	<u>248,060</u>	<u>8,535,149</u>
							1,042,352
	147,806						2,272,290
			378,728				415,944
							16,200
						227,025	261,300
							1,879,585
					901,100		1,365,682
12,167							12,167
			23,223				1,069,691
<u>12,167</u>	<u>147,806</u>		<u>401,951</u>		<u>901,100</u>	<u>227,025</u>	<u>8,335,211</u>
11,833	7,234	1,984	(59,595)	148,736	374	21,035	199,938
							(35,168)
	18,500		74,000				1,516,000
				(149,500)			(1,516,000)
	<u>18,500</u>		<u>74,000</u>	<u>(149,500)</u>			<u>(35,168)</u>
11,833	25,734	1,984	14,405	(764)	374	21,035	164,770
11,684	41,975	2,026	(8,611)	2,643	15,579	12,494	263,555
<u>\$ 23,517</u>	<u>\$ 67,709</u>	<u>\$ 4,010</u>	<u>\$ 5,794</u>	<u>\$ 1,879</u>	<u>\$ 15,953</u>	<u>\$ 33,529</u>	<u>\$ 428,325</u>
\$ 34,540	\$ 70,890	\$ 4,010	\$ 29,062	\$ 1,879	\$ 15,953	\$ 33,928	\$ 491,815
							21,297
							11,855
(11,023)	(3,181)		(23,268)			(399)	(101,675)
							5,033
<u>\$ 23,517</u>	<u>\$ 67,709</u>	<u>\$ 4,010</u>	<u>\$ 5,794</u>	<u>\$ 1,879</u>	<u>\$ 15,953</u>	<u>\$ 33,529</u>	<u>\$ 428,325</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 .....	9
NOTE 2.	DEPOSITS .....	12
NOTE 3.	TRANSFERS.....	12
NOTE 4.	CUSTODIAL FUNDS .....	12
NOTE 5.	RECEIVABLE.....	13
NOTE 6.	LEASE AGREEMENT.....	13
NOTE 7.	LONG-TERM DEBT .....	14
NOTE 8.	CONTINGENCIES .....	16
NOTE 9.	EMPLOYEE RETIREMENT SYSTEM .....	17
NOTE 10.	DEFERRED COMPENSATION.....	20
NOTE 11.	INSURANCE.....	20
NOTE 12.	PAYROLL REVOLVING ACCOUNT .....	21

**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2020**

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

**A. Reporting Entity**

The financial statement of Jackson County includes all budgeted and unbudgeted funds under the control of the Jackson 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.

**B. Basis of Accounting**

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

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

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

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

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

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

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

**JACKSON 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)**

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.

Special Grant Fund - The primary purpose of this fund is to account for federal grant receipts and disbursements. The primary source of receipts is federal grants.

Disaster Emergency Services Fund - The primary purpose of this fund is to account for receipts and disbursements of Chemical Stockpile Emergency Preparedness Program (CSEPP) grants. These funds are received from the Department of Homeland Security and are to be used solely for the purpose of providing emergency preparedness in case of an accident involving the stockpile of chemical weapons at the Blue Grass Army Depot in Madison County, Kentucky. In no event shall these funds be used for expenses relating to the administration of the government. Federal requirements, along with the Department for Local Government, require the fiscal court to maintain these receipts and disbursements separately from the general fund.

Forest Fire Fund - The primary purpose of this fund is to account for the receipts of fire acres tax paid and disbursed for fire protection due to the state government.

Transfer Station Fund - The primary purpose of this fund is to account for the receipts and disbursements of user fees charged for providing solid waste disposal services to county residents.

911 CMRS Fund - The primary purpose of this fund is to support the operation of the county's emergency communications. The primary sources of receipts for this fund are land line and cellular telephone fees paid monthly by consumers.

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

Public Facilities Construction Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates, or to enhance safety and security within the jail. The jailer is required to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

**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.

**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(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.

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The state local finance officer does not require the public facilities construction corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

**E. Jackson County Elected Officials**

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

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

**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.

**Note 3. Transfers**

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

	General Fund	Road Fund	911 CMRS Fund	Total Transfers In
General Fund	\$	\$ 430,000	\$ 149,500	\$ 579,500
Road Fund	150,000			150,000
Jail Fund	694,000			694,000
Disaster Emergency Services Fund	18,500			18,500
Transfer Station Fund	74,000			74,000
Total Transfers Out	<u>\$ 936,500</u>	<u>\$ 430,000</u>	<u>\$ 149,500</u>	<u>\$ 1,516,000</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. Custodial Funds**

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

The fiscal court has the following custodial fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2020, was \$60,855.



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

**Note 5. Receivable**

In May 2010, the Department for Local Government awarded the Jackson County Fiscal Court a \$1,000,000 Multi-County Local Government Economic Development Fund (LGEDF) Grant for the purposes of acquiring the Phillips Diversified manufacturing facility located in the McKee/Jackson County Regional Industrial Park and make improvements to the facility. In February 2011, the agreement was amended to reflect a change in the use of project proceeds to be used as a revolving loan fund by the McKee/Jackson County Industrial Development Authority. The loan to Phillips Diversified manufacturing facility was paid off on June 3, 2019, and a new loan was made to DTS Industries, LLC on May 15, 2019 for the purpose of purchasing equipment, property, building, and contracts. The revolving loan fund is administrated by the McKee/Jackson County Industrial Development Authority. As of June 30, 2020, the outstanding balance of the loan fund was \$1,000,000. Future principal and interest payments are scheduled as following:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 23,620	\$ 44,780
2022	48,862	42,938
2023	51,106	40,693
2024	53,454	38,345
2025	55,910	35,889
2026-2030	320,520	138,476
2031-2035	<u>446,528</u>	<u>54,080</u>
Totals	<u>\$ 1,000,000</u>	<u>\$ 395,201</u>

**Note 6. Lease Agreement**

On October 11, 2018, the county entered into a lease agreement with Enterprise FM Trust to lease three vehicles for use by the Jackson County Fiscal Court. Enterprise FM Trust will, on or about the date of delivery of each vehicle to the county, include a schedule covering the vehicle, which will include a description of the vehicle, the lease term and the monthly rental and other payments due with respect to the vehicle. The agreement is a lease only and the county will not have right, title, or interest in or to the vehicles except for the use of the vehicles as described in the agreement. The lease term commences on the delivery date of the vehicle and ends 24 months after the first full month rental payment date with an option to continue month-to-month for an unlimited period of time. During fiscal year 2020, the county leased three vehicles with total lease payments of \$17,768 for the year. The lease payments required under the leasing agreement for the fiscal year ending June 30, 2020, are as follows:

Fiscal Year Ending June 30	Amount
2021	<u>\$ 19,223</u>
Total Lease Payments	<u>\$ 19,223</u>

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

**Note 7. Long-term Debt**

**A. Direct Borrowing and Direct Placements**

**1. Financing Obligation - County Detention Center**

On October 19, 2011, the Jackson County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$3,870,000 for the refinancing of a lease agreement dated August 3, 2009, between KACoLT and the Jackson County Fiscal Court, the proceeds of which provided financing for construction and equipping the county detention center and refinancing of a lease agreement dated May 12, 2011, between PNC Equipment Finance and Jackson County Fiscal Court, the proceeds of which were used to finance the acquisition and installation of security system enhancements. The agreement requires variable monthly payments for 327 months to be paid in full January 1, 2039, with an interest rate of 5.14 percent. The outstanding principal balance of the agreement is \$3,039,167 as of June 30, 2020. Lease payments for the remaining years are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 110,000	\$ 147,927
2022	112,083	143,963
2023	117,083	139,700
2024	122,083	134,975
2025	127,083	129,786
2026-2030	722,500	562,584
2031-2035	910,834	375,594
2036-2039	817,501	108,473
Totals	<u>\$ 3,039,167</u>	<u>\$ 1,743,002</u>

**2. Financing Obligation - Retirement Settlement**

In November 2018, the Jackson County Fiscal Court borrowed \$470,000 from the Kentucky Association of Counties Finance Corporation to pay outstanding amounts owed to Kentucky Retirement System for delinquent retirement withholdings and employer contributions. The agreement has an interest rate of 3.31 percent. Principal and interest payments are due monthly. The outstanding principal balance of the agreement is \$415,000 as of June 30, 2020. Payments for the remaining years are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 40,000	\$ 21,817
2022	42,500	19,718
2023	45,000	17,486
2024	47,500	15,124
2025	50,000	12,630
2026-2029	190,000	23,599
Totals	<u>\$ 415,000</u>	<u>\$ 110,374</u>

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

**Note 7. Long-term Debt (Continued)**

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

**3. Financing Obligation - Road Improvements**

On May 31, 2012, the Jackson County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$500,000. The lease was for improvements to county roads. The agreement has a variable interest rate. During fiscal year 2020, the interest rate was 4.55 percent. Principal and interest payments are due monthly. The outstanding principal balance of the agreement is \$80,000 as of June 30, 2020. Lease payments for the remaining years are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 40,000	\$ 4,053
2022	40,000	1,498
Totals	<u>\$ 80,000</u>	<u>\$ 5,551</u>

**B. Other Debt**

**1. Refunding Revenue Bonds, Series 2015 - Judicial Center**

On October 29, 2015, the Jackson County Public Properties Corporation issued \$7,360,000 of first mortgage revenue refunding bonds. Proceeds from the bonds were used for the purposes of (i) the advance refunding of all or certain maturities of the Jackson County, Kentucky Public Properties Corporation First Mortgage Revenue Bonds (Judicial Center project), Series 2007; (ii) the payment of accrued interest, if any; and (iii) the payment of the cost of issuance incurred with respect to the issuance of the bonds. Principal payments are due annually on August 1 beginning December 1, 2017. Interest payments, which vary from two to three percent, are payable semi-annually on December 1 and June 1. The outstanding principal balance as of June 30, 2020, is \$6,460,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 745,000	\$ 151,300
2022	760,000	136,250
2023	775,000	120,900
2024	795,000	103,213
2025	810,000	83,150
2026-2028	<u>2,575,000</u>	<u>113,125</u>
Totals	<u>\$ 6,460,000</u>	<u>\$ 707,938</u>

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

**Note 7. Long-term Debt (Continued)**

**C. Aggregate Debt Schedule**

The amounts of required principal and interest payments on long-term obligations at June 30, 2020, were as follows:

Fiscal Year Ended June 30	Other Debt		Direct Borrowings and Direct Placements	
	Principal	Interest	Principal	Interest
2021	\$ 745,000	\$ 151,300	\$ 190,000	\$ 173,797
2022	760,000	136,250	194,583	165,179
2023	775,000	120,900	162,083	157,186
2024	795,000	103,213	169,583	150,099
2025	810,000	83,150	177,083	142,416
2026-2030	2,575,000	113,125	912,500	586,183
2031-2035			910,834	375,594
2036-2039			817,501	108,473
Totals	<u>\$ 6,460,000</u>	<u>\$ 707,938</u>	<u>\$ 3,534,167</u>	<u>\$ 1,858,927</u>

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

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

	Beginning Balance	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 3,718,750	\$ 184,583	\$ 3,534,167	\$ 190,000
Revenue Bonds	<u>7,195,000</u>	<u>735,000</u>	<u>6,460,000</u>	<u>745,000</u>
Total Long-term Debt	<u>\$ 10,913,750</u>	<u>\$ 919,583</u>	<u>\$ 9,994,167</u>	<u>\$ 935,000</u>

**Note 8. Contingencies**

The county is involved in two lawsuits. While individually they may not be significant, in the aggregate they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

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

**Note 9. 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 \$499,793, FY 2019 was \$1,147,623, and FY 2020 was \$591,797.

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 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.

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

**Note 9. 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 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:

<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.

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

**Note 9. Employee Retirement System (Continued)**

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

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.

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

**Note 9. Employee Retirement System (Continued)**

Other Post-Employment Benefits (OPEB) (Continued)

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.

**Note 10. Deferred Compensation**

The Jackson County Fiscal Court voted in 2002 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 11. Insurance**

For the fiscal year ended June 30, 2020, the Jackson 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.



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

**Note 12. Payroll Revolving Account**

The change of the payroll revolving account of (\$35,168), as of June 30, 2020, was added to the general fund cash balance for financial reporting purposes.

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

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

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**JACKSON 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	\$ 2,088,100	\$ 2,088,100	\$ 2,245,130	\$ 157,030
In Lieu Tax Payments	80,000	80,000	92,991	12,991
Excess Fees	42,500	89,593	88,788	(805)
Intergovernmental	577,851	577,851	379,408	(198,443)
Charges for Services	29,300	29,300	15,830	(13,470)
Miscellaneous	30,350	30,350	46,508	16,158
Interest	160	160	81	(79)
Total Receipts	<u>2,848,261</u>	<u>2,895,354</u>	<u>2,868,736</u>	<u>(26,618)</u>
<b>DISBURSEMENTS</b>				
General Government	1,091,712	1,138,805	1,034,375	104,430
Protection to Persons and Property	355,042	355,042	327,876	27,166
General Health and Sanitation	21,150	21,150	17,443	3,707
Recreation and Culture	33,000	33,685	34,275	(590)
Debt Service	300,000	300,000	356,849	(56,849)
Capital Projects	20,000	20,000		20,000
Administration	887,357	886,672	670,662	216,010
Total Disbursements	<u>2,708,261</u>	<u>2,755,354</u>	<u>2,441,480</u>	<u>313,874</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>140,000</u>	<u>140,000</u>	<u>427,256</u>	<u>287,256</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	382,490	382,490	579,500	197,010
Transfers To Other Funds	<u>(532,490)</u>	<u>(532,490)</u>	<u>(936,500)</u>	<u>(404,010)</u>
Total Other Adjustments to Cash (Uses)	<u>(150,000)</u>	<u>(150,000)</u>	<u>(357,000)</u>	<u>(207,000)</u>
Net Change in Fund Balance	(10,000)	(10,000)	70,256	80,256
Fund Balance - Beginning	<u>10,000</u>	<u>10,000</u>	<u>103,509</u>	<u>93,509</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 173,765</u>	<u>\$ 173,765</u>

**JACKSON 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>				
In Lieu Tax Payments	\$ 10,000	\$ 10,000	\$ 134,666	\$ 124,666
Intergovernmental	1,585,344	1,907,949	1,906,449	(1,500)
Miscellaneous	300,000	428,671	428,671	
Interest	200	200	276	76
Total Receipts	<u>1,895,544</u>	<u>2,346,820</u>	<u>2,470,062</u>	<u>123,242</u>
<b>DISBURSEMENTS</b>				
General Government	7,200	7,200	7,977	(777)
Roads	1,330,004	1,781,280	1,859,742	(78,462)
Debt Service	102,884	102,884	107,733	(4,849)
Administration	235,456	235,456	159,086	76,370
Total Disbursements	<u>1,675,544</u>	<u>2,126,820</u>	<u>2,134,538</u>	<u>(7,718)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>220,000</u>	<u>220,000</u>	<u>335,524</u>	<u>115,524</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			150,000	150,000
Transfers To Other Funds	(220,000)	(220,000)	(430,000)	(210,000)
Total Other Adjustments to Cash (Uses)	<u>(220,000)</u>	<u>(220,000)</u>	<u>(280,000)</u>	<u>(60,000)</u>
Net Change in Fund Balance			55,524	55,524
Fund Balance - Beginning			<u>13,404</u>	<u>13,404</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 68,928</u>	<u>\$ 68,928</u>

**JACKSON 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	\$ 1,340,105	\$ 1,340,105	\$ 1,086,796	\$ (253,309)
Charges for Services	70,000	70,000	140,450	70,450
Miscellaneous	100	100	117	17
Interest	15	15	34	19
Total Receipts	<u>1,410,220</u>	<u>1,410,220</u>	<u>1,227,397</u>	<u>(182,823)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	1,607,210	1,607,389	1,706,910	(99,521)
Administration	263,010	262,831	216,720	46,111
Total Disbursements	<u>1,870,220</u>	<u>1,870,220</u>	<u>1,923,630</u>	<u>(53,410)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(460,000)</u>	<u>(460,000)</u>	<u>(696,233)</u>	<u>(236,233)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	460,000	460,000	694,000	234,000
Total Other Adjustments to Cash (Uses)	<u>460,000</u>	<u>460,000</u>	<u>694,000</u>	<u>234,000</u>
Net Change in Fund Balance			(2,233)	(2,233)
Fund Balance - Beginning			<u>19,005</u>	<u>19,005</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,772</u>	<u>\$ 16,772</u>

**JACKSON 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	\$ 79,400	\$ 138,551	\$ 147,237	\$ 8,686
Interest	15	15	67	52
Total Receipts	<u>79,415</u>	<u>138,566</u>	<u>147,304</u>	<u>8,738</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	30,000	89,651	89,698	(47)
General Health and Sanitation	10,000	9,500	19,773	(10,273)
Social Services	21,600	21,600	16,200	5,400
Roads	21,382	21,382	19,843	1,539
Administration	1,433	1,433		1,433
Total Disbursements	<u>84,415</u>	<u>143,566</u>	<u>145,514</u>	<u>(1,948)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(5,000)</u>	<u>(5,000)</u>	<u>1,790</u>	<u>6,790</u>
Net Change in Fund Balance	(5,000)	(5,000)	1,790	6,790
Fund Balance - Beginning	<u>5,000</u>	<u>5,000</u>	<u>49,847</u>	<u>44,847</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 51,637</u>	<u>\$ 51,637</u>



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

	<b>SPECIAL GRANT FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 31,000	\$ 31,000	\$ 24,000	\$ (7,000)
Total Receipts	<u>31,000</u>	<u>31,000</u>	<u>24,000</u>	<u>(7,000)</u>
<b>DISBURSEMENTS</b>				
Capital Projects	31,000	31,000	12,167	18,833
Total Disbursements	<u>31,000</u>	<u>31,000</u>	<u>12,167</u>	<u>18,833</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>11,833</u>	<u>11,833</u>
Net Change in Fund Balance			11,833	11,833
Fund Balance - Beginning			<u>11,684</u>	<u>11,684</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,517</u>	<u>\$ 23,517</u>

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

	<b>DISASTER EMERGENCY SERVICES FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 156,000	\$ 156,000	\$ 155,040	\$ (960)
Total Receipts	156,000	156,000	155,040	(960)
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	156,000	156,000	147,806	8,194
Total Disbursements	156,000	156,000	147,806	8,194
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			7,234	7,234
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			18,500	18,500
Total Other Adjustments to Cash (Uses)			18,500	18,500
Net Change in Fund Balance			25,734	25,734
Fund Balance - Beginning			41,975	41,975
Fund Balance - Ending	\$ 0	\$ 0	\$ 67,709	\$ 67,709

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

	<b>FOREST FIRE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 2,500	\$ 2,500	\$ 1,979	\$ (521)
Interest	2	2	5	3
Total Receipts	<u>2,502</u>	<u>2,502</u>	<u>1,984</u>	<u>(518)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	<u>2,527</u>	<u>2,527</u>		<u>2,527</u>
Total Disbursements	<u>2,527</u>	<u>2,527</u>		<u>2,527</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(25)</u>	<u>(25)</u>	<u>1,984</u>	<u>2,009</u>
Net Change in Fund Balance	(25)	(25)	1,984	2,009
Fund Balance - Beginning	<u>25</u>	<u>25</u>	<u>2,026</u>	<u>2,001</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,010</u>	<u>\$ 4,010</u>

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

	<b>TRANSFER STATION FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 29,000	\$ 29,000	\$ 29,202	\$ 202
Charges for Services	230,000	230,000	313,135	83,135
Interest	12	12	19	7
Total Receipts	<u>259,012</u>	<u>259,012</u>	<u>342,356</u>	<u>83,344</u>
<b>DISBURSEMENTS</b>				
General Health and Sanitation	284,012	284,012	378,728	(94,716)
Administration	25,500	25,500	23,223	2,277
Total Disbursements	<u>309,512</u>	<u>309,512</u>	<u>401,951</u>	<u>(92,439)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(50,500)</u>	<u>(50,500)</u>	<u>(59,595)</u>	<u>(9,095)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>50,000</u>	<u>50,000</u>	<u>74,000</u>	<u>24,000</u>
Total Other Adjustments to Cash (Uses)	<u>50,000</u>	<u>50,000</u>	<u>74,000</u>	<u>24,000</u>
Net Change in Fund Balance	(500)	(500)	14,405	14,905
Fund Balance - Beginning	<u>500</u>	<u>500</u>	<u>(8,611)</u>	<u>(9,111)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,794</u>	<u>\$ 5,794</u>

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

	<b>911 CMRS FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 140,000	\$ 140,000	\$ 148,736	\$ 8,736
Total Receipts	<u>140,000</u>	<u>140,000</u>	<u>148,736</u>	<u>8,736</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>140,000</u>	<u>140,000</u>	<u>148,736</u>	<u>8,736</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	<u>(140,000)</u>	<u>(140,000)</u>	<u>(149,500)</u>	<u>(9,500)</u>
Total Other Adjustments to Cash (Uses)	<u>(140,000)</u>	<u>(140,000)</u>	<u>(149,500)</u>	<u>(9,500)</u>
Net Change in Fund Balance			(764)	(764)
Fund Balance - Beginning			<u>2,643</u>	<u>2,643</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,879</u>	<u>\$ 1,879</u>

**JACKSON 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. Reconciliation of the General Fund**

Reconciliation of the General Fund

Other Adjustments to Cash(Uses) - Budgetary Basis	\$ (357,000)
To Adjust For Change In Payroll Revolving Account	<u>(35,168)</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ (392,168)</u>
Fund Balance - Ending - Budgetary Basis	\$ 173,765
To Adjust For Change In Payroll Revolving Account	<u>(35,168)</u>
Total Fund Balance - Ending - Regulatory Basis	<u>\$ 138,597</u>

**Note 3. Excess of Disbursements Over Appropriations**

General Fund:

- Recreation and culture exceeded budgeted appropriations by \$590.
- Debt service exceeded budgeted appropriations by \$56,849.

Road Fund:

- General government exceeded budgeted appropriations by \$777.
- Roads exceeded budgeted appropriations by \$78,462.
- Debt service exceeded budgeted appropriations by \$4,849.
- Overall budget exceeded budgeted appropriations by \$7,718.

Jail Fund:

- Protection to persons and property exceeded budgeted appropriations by \$99,521.
- Overall budget exceeded budgeted appropriations by \$53,410.

LGEA Fund:

- Protection to persons and property exceeded budgeted appropriations by \$47.
- General health and sanitation exceeded budgeted appropriations by \$10,273.
- Overall budget exceeded budgeted appropriations by \$1,948.

Transfer Station Fund:

- General health and sanitation exceeded budgeted appropriations by \$94,716.
- Overall budget exceeded budgeted appropriations by \$92,439.

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

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

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**JACKSON 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 (Restated)	Additions	Deletions	Ending Balance
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Land and Land Improvements	\$ 898,632	\$	\$	\$ 898,632
Buildings	9,717,179			9,717,179
Vehicles and Equipment*	4,003,631	152,160	51,350	4,104,441
Infrastructure	<u>10,492,365</u>	<u>1,416,718</u>	<u>                    </u>	<u>11,909,083</u>
 Total Capital Assets	 <u>\$ 25,111,807</u>	 <u>\$ 1,568,878</u>	 <u>\$ 51,350</u>	 <u>\$ 26,629,335</u>

**JACKSON 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>
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Vehicles and Equipment	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-50

**Note 2. Restatement Of Capital Assets Beginning Balance**

Vehicles and equipment were restated by (\$85,901), due to errors in the prior year.

**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 Shane Gabbard, Jackson County Judge/Executive  
Members of the Jackson 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 Jackson County Fiscal Court for the fiscal year ended June 30, 2020, and the related notes to the financial statement which collectively comprise the Jackson County Fiscal Court's financial statement and have issued our report thereon dated January 6, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Jackson 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 Jackson County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Jackson 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 certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2020-001, 2020-002, 2020-003, 2020-004, 2020-005, 2020-006, 2020-007, 2020-008, and 2020-009 to be material weaknesses.



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

**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 deficiency described in the accompanying Schedule of Findings and Responses as item 2020-010 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Jackson 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, 2020-002, 2020-003, 2020-004, 2020-005, 2020-007, and 2020-009.

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

Jackson 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

January 6, 2021

**JACKSON COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

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

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**JACKSON COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

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

FINANCIAL STATEMENT FINDINGS:

2020-001    The Jackson County Fiscal Court Did Not Accurately Report Financial Information On The Annual Financial Statement And The Fourth Quarter Financial Report

---

This is a repeat finding and was included in the prior year audit report as finding 2019-001. The Jackson County Fiscal Court's annual financial statement and the fourth quarter financial report contained the following errors:

- The annual financial statement did not include a complete listing of disbursements for each vendor.
- The general fund was misstated by \$5,033 due to the balance of a certificate of deposit being omitted from the final balance reported on the financial statements.
- Budget amendment approved on September 9, 2019, totaling \$59,151 for the LGEA fund was not included on the annual financial statement or the fourth quarter financial report.
- The fiscal court failed to report encumbrances as required.

Controls were not in place to ensure that staff knew the requirements and to make sure they were being followed. The county also did not have sufficient controls in place to ensure all budget amendments had been included on financial reports. This has resulted in the financial reporting errors for county funds.

KRS 68.360(2) states, “[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund.” Those encumbered balances are required to be reported on the county's annual financial report.

KRS 424.220(2) states, “[t]he statement shall show: (a) The total amount of funds collected and received during the fiscal year from each individual source; and (b) The total amount of funds disbursed during the fiscal year to each individual payee. The list shall include only aggregate amounts to vendors exceeding one thousand dollars (\$1,000).”

Strong internal controls over financial reporting are vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court. These controls should include an individual independent of the accounting function reviewing the financial reports for compliance with reporting requirements.

We recommend the Jackson County Fiscal Court improve procedures over financial reporting to ensure accurate reporting of the county's financial status and compliance with applicable statutes.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The Treasurer's office corrected the financial statement when it was discovered that a couple of transactions were not accounted for. The system created 2 transactions per entry in the software and one of the transactions of each did not clear and reflect on the financial statement.*

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-002 The Jackson County Fiscal Court's Disbursement Exceeded Budgeted Appropriations For Several Funds

---

The Jackson County Fiscal Court exceeded budgeted appropriations in the road fund, jail fund, Local Government Economic Assistance (LGEA) fund, and the transfer station fund. Fiscal courts are required to maintain expenditures within budgeted appropriations in all operating funds. The following amounts were overspent when compared to the budgeted appropriations:

- Road fund budget was overspent in the amount of \$7,118.
- Jail fund budget was overspent in the amount of \$53,410.
- LGEA fund budget was overspent in the amount of \$1,948.
- Transfer station fund was overspent in the amount of \$92,439.

The fiscal court failed to properly monitor budgeted expenditures of the county's operating funds and to submit budget amendments for approval as necessary. A portion of expenditures of the Jackson County Fiscal Court's road fund, jail fund, LGEA fund, and transfer station fund were made without sufficient budget appropriations. 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. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable." Strong internal controls over financial reporting are vital in ensuring the fiscal court's actual expenditures do not exceed the budgeted expenditures in each fund.

We recommend the Jackson County Fiscal Court implement controls to ensure that expenditures are within budget appropriations as required by statute.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The fiscal court had a state of emergency that exceeded budgeted appropriations unexpectedly.*

**Auditor's Reply:** KRS 67.078 allows a fiscal court to declare an emergency and act in a single meeting, thus allowing fund transfers to take immediate effect when made in accordance with KRS 68.290, which specifically provides for this situation, stating, "The fiscal court may transfer money from one (1) budget fund to another to provide for emergencies... The order of the fiscal court making the transfer shall show the nature of the emergency...and the reason for making the transfer." These procedures were not followed.

2020-003 The Jackson County Fiscal Court Did Not Have Adequate Controls Over Cash Transfers Between Funds

---

The Jackson County Fiscal Court did not have adequate controls over cash transfers between funds during fiscal year 2020. Cash transfers were not consistently approved by the fiscal court prior to being transferred. As a result the following cash transfers were not properly authorized:

- Sixteen out of 44 transfers totaling \$568,000 were not documented in the minutes of the fiscal court meetings with approval to transfer amounts.
- Twelve out of 44 transfers were approved in the minutes of the fiscal court after the transfer was already made.
- One transfer was approved in the minutes of the fiscal court for \$50,000 but the actual transfer made was \$150,000 for a difference of \$100,000 that was not approved.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-003 The Jackson County Fiscal Court Did Not Have Adequate Controls Over Cash Transfers Between Funds (Continued)

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Additionally, the fiscal court transferred \$430,000 from the road fund to the general fund during the fiscal year ending June 30, 2020, for administration expense. State truck license distribution receipts for fiscal year 2020 were \$250,741, which is the maximum amount allowable for the road fund to transfer to the general fund, meaning the general fund was overpaid by \$179,259. During the year, a total of \$150,000 was transferred back to the road fund from the general fund, leaving a total of \$29,259 yet to be reimbursed to the road fund.

The county treasurer transferred funds before approval due to timing issues in an attempt to avoid late payment fees and penalties that would have incurred if she had waited until the next upcoming fiscal court meeting. The fiscal court did not have controls in place to ensure compliance with state law regarding the uniform system of accounts which requires all cash transfers to be properly authorized and only the allowable amount should be transferred from the road fund to the general fund. The transfer of road fund monies to the general fund reduces the amount of funds available to maintain county roads. Furthermore, by not properly authorizing cash transfers, the risk of misappropriation of assets is increased as cash could be transferred to non-county funds.

Strong internal controls over cash transfers are vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court. The fiscal court should also have a process to monitor amounts transferred from the restricted road fund into the unrestricted general fund to ensure that amounts transferred do not exceed what is allowable.

In addition, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, requires all cash transfers to be approved by court order and be documented in the *Fiscal Court Orders Book*.

According to page 73 of DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*, "[a]ll transfers require a court order." Also, according to page 19 of DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*, "[t]he total of road fund dollars appropriated for administrative costs must not exceed truck license distribution receipts.

We recommend the fiscal court implement stronger internal controls over the cash transfer process to ensure all cash transfers are approved by the fiscal court and the approval by the fiscal court prior to the transfer being made. In addition, we recommend the Jackson County Fiscal Court reimburse the road fund a total of \$29,259 from the general fund and to also establish procedures to ensure that transfers from the road fund do not exceed what is allowable based upon funds received from the state for truck license distribution.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The transfers are now being reported in the minutes before they are executed.*

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-004 The Jackson County Fiscal Court Did Not Have Adequate Procedures For Reporting County Liabilities

---

This is a repeat finding and was included in the prior year audit report as finding 2019-004. The Jackson County Fiscal Court had posting errors related to debt service payments. The liabilities section of the financial statement was misstated. Of the five debts listed, the principal balances for four of the debts were not reported correctly, resulting in a difference of \$1,248,692. The interest balances on all five debts were not reported correctly, resulting in a difference of \$1,436,783.

The fiscal court does not have controls in place to ensure balances were reported properly. Some of the differences in the principal and interest balances are likely due to posting errors in prior years. The software used by the fiscal court calculates the balances for principal and interest based upon when debt service payments are issued. If the debt service payments were misclassified when issued, then the balances would not calculate properly. This has resulted in the misstatement of county liabilities, making it difficult for management to easily determine where the county's debt balances stand.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires officials to report all liabilities of the county, even when related to unbudgeted funds. The schedules should be reported with correct balances. Procedures should be in place with the fiscal court to ensure that all liabilities held at fiscal year-end are reported on the liabilities schedule and have accurate ending balances.

We recommend the county improve procedures to ensure proper reporting of all county liabilities on the financial statement. We also recommend that the county ensure that debt service payments are properly recorded on the disbursement ledgers.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Software is not deducting correctly when each payment is processed from the balance.*

2020-005 The Jackson County Fiscal Court Does Not Have Adequate Procedures Over Handling Of Disbursements

---

This is a repeat finding and was included in the prior year audit report as finding 2019-005. During testing of disbursements, the auditor tested 144 disbursements and 11 lease invoices. The following issues were noted:

- Five disbursements did not have adequate supporting documentation. Invoices could not be found. It could not be determined if disbursements were a valid obligation of the fiscal court at time of payment due to missing invoices.
- Eleven disbursements were not presented to the fiscal court before being paid.
- Three disbursements were not properly recorded. One disbursement was listed on ledgers as a check, but cleared as an ACH. Two disbursements posted to ledgers as being paid have not cleared the bank.
- Eight disbursements were not paid within 30 working days of receiving the invoice. The fiscal court does not document when an invoice is received. The invoice date was used to determine if the invoice was paid timely.
- Eighty-three disbursements did not have a purchase order prepared before the purchase of the item.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-005 The Jackson County Fiscal Court Does Not Have Adequate Procedures Over Handling Of Disbursements (Continued)

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- Six disbursements included late fee/service charges.
- One disbursement amount paid did not agree to the invoice.
- One disbursement was paid from a monthly statement and not a detailed invoice. It could not be determined if the disbursement was a valid obligation of the fiscal court at the time of payment due to the invoice not being detailed.
- Food service for the detention center was never properly bid. The county judge/executive presented the contract with a vendor for food service during a fiscal court meeting in 2014. The contract was for a three year term and annually renews thereafter.
- One health insurance disbursement was paid late.
- Four out of eleven lease invoices for three leased vehicles were paid late and incurred finance charges of \$136.

The fiscal court failed to establish appropriate internal controls over disbursements and has failed to document review activities performed by the county judge/executive. The fiscal court's failure to establish effective internal controls over disbursements resulted in numerous instances of noncompliance reflected above.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* presents requirements for counties handling of disbursements, including:

- County should have a purchase order system where all purchases are approved and the budget is checked for sufficient available appropriation.
- Operating disbursements are required to have appropriate supporting documentation and be properly coded prior to inclusion on the monthly claims list.
- Claims against the county are required to be paid within 30 days pursuant to KRS 65.140.

KRS 68.275(2) states, in part, “[t]he county judge/executive shall present all claims to the fiscal court for review prior to payment[.]”

KRS 424.260(1) states, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids.”

Good internal controls over disbursements are necessary to ensure proper reporting and ensure the county is conducting business that is compliant with required statutes.

We recommend the fiscal court improve procedures over disbursements to ensure the proper handling of disbursements.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-005 The Jackson County Fiscal Court Does Not Have Adequate Procedures Over Handling Of Disbursements (Continued)

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Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Fiscal Court was unaware of the need to bid food service for the Jail. Fiscal Court is continuing to improve disbursement procedures.*

2020-006 The Jackson County Fiscal Court Does Not Have Adequate Segregation Of Duties Over Receipts, Record Keeping, Report Preparation, And Reconciliations

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This is a repeat finding and was included in the prior year audit report as finding 2019-006. Segregation of duties did not exist over the fiscal court receipts process including collection and processing, record-keeping, report preparation, and reconciliations. The county treasurer and assistant treasurer perform all receipt functions, including preparing deposits, posting to ledgers, preparing reports, and performing bank reconciliations. The county has implemented compensating controls, including the county judge/executive reviewing deposits; however, these reviews are not documented. The fiscal court operates with a small staff, making it very difficult to adequately segregate responsibilities. This deficiency increases the risk of misappropriation of assets, errors, and financial reporting going undetected.

The segregation of duties over various accounting functions such as collecting receipts, preparing deposits, report preparation, and bank reconciliations are essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the fiscal court separate the duties in preparing deposits, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this by signing or initialing the supporting documentation.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Fiscal Court doesn't have enough funds to employ enough people to supply adequate segregation of duties.*

Auditor's Reply: While segregating duties is the best to improve controls, the fiscal court can implement documented strong oversight and review with existing staff that would not require the hiring of additional staff.

2020-007 The Jackson County Fiscal Court Does Not Have Internal Controls Over Transfer Station Receipts And Deposits

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The following issues were noted with regard to internal controls over receipts and deposits at the county transfer station:

- Daily check-out sheets were not prepared.
- Receipts were not accounted for in numerical sequence.
- Proper review of collections was not documented when the deposit was prepared and delivered to the county judge's office for deposit into bank.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-007 The Jackson County Fiscal Court Does Not Have Internal Controls Over Transfer Station Receipts And Deposits (Continued)

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The Jackson County Judge/Executive and the fiscal court have failed to establish internal controls over receipts and deposits from the county's transfer station. Inaccurate financial reporting and misappropriated funds may occur when receipts are not accounted for on a daily basis, daily check sheets are not prepared, and receipts are not accounted for in numerical sequence.

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* establishes several procedures to institute a strong internal control environment, including issuing pre-numbered three-part receipts for all receipts and ensuring that deposits are made daily intact.

We recommend the judge/executive and fiscal court strengthen internal controls to ensure daily check-outs are performed and receipts are processed in order. We also recommend the employee providing oversight document this by signing or initialing the supporting documentation.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Fiscal Court is working to correct the transfer station transactions.*

2020-008 The Jackson County Fiscal Court Does Not Have Internal Controls Over Occupational Tax Collections

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This is a repeat finding and was included in the prior year audit report as finding 2019-007. The Jackson County Fiscal Court does not have adequate controls over occupational tax collections. The occupational tax administrator performs all duties associated with occupational taxes. All receipts are collected, recorded, and deposited by the occupational tax administrator and the occupational tax administrator makes payments to the fiscal court on an as needed basis. The payments do not relate to the actual receipts collected over any defined period and there is a lack of segregation of duties related to the occupational tax office. According to personnel, the county judge/executive does review monthly bank statements and deposits, but this review is not documented.

This is a result of the fiscal court's failure to establish internal controls to mitigate the risk involved with the collection of occupational tax receipts. Without proper internal controls, the county is exposed to the risk of not receiving all occupational license taxes and erroneous recording of receipts. Also, without occupational taxes being paid periodically and being supported by receipts documentation, it is impossible for the treasurer to determine if amounts being transferred are complete or accurate.

Appropriate internal controls would have additional personnel involved in the occupational tax process. With only one person involved in the process with no evidence of review or management oversight, it is impossible for the county to be able to detect errors, waste, fraud, and abuse.

KRS 68.210 gives the state local financier officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, which dictates that, "the county treasurer is the sole officer bonded to receive and disburse county funds and could be liable on the county treasurer's bond if correct records are not maintained and the procedures are not followed as required by law."

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-008 The Jackson County Fiscal Court Does Not Have Internal Controls Over Occupational Tax Collections (Continued)

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Without adequate support for occupational tax funds received, it is impossible for the treasurer to determine if the amount being deposited to the general fund is complete or accurate.

We recommend the fiscal court implement internal controls over the receipt and disbursement of occupational taxes. The fiscal court should also ensure occupational tax receipts are paid over to the fiscal court on a regular periodic basis and supported by receipt documentation to ensure the completeness of the transfer.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Fiscal Court is working to correct to correct the occupational tax operations.*

2020-009 The Jackson County Fiscal Court Does Not Have Adequate Controls Over Payroll Processing

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This is a repeat finding and was included in the prior year audit report as finding 2019-008. The Jackson County Fiscal Court did not have adequate controls over payroll processing. The lack of adequate controls resulted in the following issues:

- One employee was paid for hours not worked.
- One employee's timesheet was not approved by the supervisor.
- One employee was paid for a 40 hour work week when no time was documented on his timesheet for the week.
- One employee was allowed to use compensatory time not yet earned and has a negative balance of 13 hours as of March 2020.
- One part-time employee was paid straight time even though they had worked over 40 hours during the week.
- One employee was not charged for eight hours of sick leave used.
- One employee is receiving wages for two positions, one is documented on a timesheet and the other one is not. Since the employee is working a 40 hour work week for the first position the second position may cause the employee to qualify for overtime.
- Six part time employees hours exceeded 100 hours per month but were not included on the county's retirement report.
- Eleven employees have exceeded the authorized leave balance approved in the county's administrative code.
- Personnel are being authorized three days or 24 hours of personal time per year; however, authorization of personal days are not included in the county's administrative code.
- Five employees have been allowed to go into a negative leave status by exceeding the authorized amount of personal days or vacation days they had accumulated.
- Payroll checks are being issued the last day of the pay period.

Weak internal controls have allowed issues with the payroll process to go unnoticed. The fiscal court is not in compliance with Kentucky Revised Statutes or the county's administrative code which is causing employees to be under and over paid as well as not being provided all the benefits they are entitled to.



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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-009 The Jackson County Fiscal Court Does Not Have Adequate Controls Over Payroll Processing  
(Continued)

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KRS 337.320(1) 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; and (c) Such other information as the commissioner requires.” Timesheets should be kept for payroll verification, as a record of leave time used, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits, such as retirement and health insurance.

Per the Jackson County Administrative Code “vacation may be accrued to 30 days or 240 hours.” It further states “the treasurer shall keep a complete records of vacation leave” and that “no employee will be permitted to take advance leave or leave that has not been earned.” Also per the Jackson County Administrative Code, “if an employee is absent from work due to illness, said employee may bring a doctor excuse to the County Judge Executive; the Judge may or may not grant sick time to be paid to the employee.”

KRS 337.285(1) states, “[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed.”

Participation in the Kentucky retirement system is only required for full-time employees, defined by KRS 78.510(6), “[e]mployee’ means every regular full-time appointed or elective officer or employee of a participating county[.]” KRS 78.510(21) states, in part, “[r]egular full-time positions,’ as used in subsection (6) of this section, shall mean all positions that average one hundred (100) or more hours per month, determined by using the number of hours actually worked in a calendar or fiscal year[.]”

OAG 79-448, discusses Section 3 of the Kentucky Constitution stating that Section 3, “is unequivocal on the point that public emolument to any person must be based on the consideration of public services. By the strongest implication this means ‘public services actually rendered.’ It does not mean ‘public services to be rendered.’”

We recommend the Jackson County Fiscal Court improve procedures over payroll by ensuring all timesheets are approved by a supervising official, employees are paid for hours actually worked and authorized compensatory time when earned and properly documented. In addition, the county should ensure leave balances are properly maintained and employees are not allowed to use time not yet earned. We also recommend payroll be examined and ensure that the monthly retirement reporting be reconciled to underlying payroll documents to ensure all employees who qualify for retirement are being properly reported. In addition, ensure all benefits the county has approved be documented in the county’s administrative code, such as personal days or sick leave. Furthermore, we recommend the county not pay employees prior to wages being earned.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive’s Response: Treasurer and Fiscal Court are working to correct any issues with payroll.*

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-010 The Jackson County Jail Does Not Have Segregation Of Duties Over Receipts, Disbursements, And The Bank Reconciliation Process

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This is a repeat finding and was included in the prior year audit report as finding 2019-010. The Jackson County Jail's administration duties include receiving the mail, collecting cash, issuing receipts, preparing deposits, posting receipts, preparing, signing and posting disbursements, and completing the bank reconciliation. When one employee is responsible for the receipt, disbursement, and reconciliation process, the risk of misappropriation of assets, errors, and inaccurate financial reporting increases.

According to the jailer, due to a limited number of staff in the jail commissary, segregation of duties is not feasible. The lack of segregation of duties or documented oversight could result in undetected misappropriation of assets and inaccurate financial reporting to the fiscal court.

Effective internal controls require proper segregation of duties over accounting functions, such as making deposits, preparing disbursements, and reconciling the bank account. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of performing their daily responsibilities.

We recommend the Jackson County Jailer segregate duties over receipts, disbursements, and the bank reconciliation process. If segregation of duties is not feasible due to lack of staff, we recommend the jailer implement and document compensating controls to offset this control deficiency.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The official did not provide a response.*

*County Jailer's Response: We have tried to segregate duties, however with the limited staff at our facility this may not be possible. We will work on separating the counting of deposits and have a different person do the deposit.*

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

**JACKSON COUNTY FISCAL COURT**

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

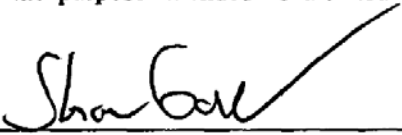
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**CERTIFICATION OF COMPLIANCE**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
COUNTY FISCAL COURT**

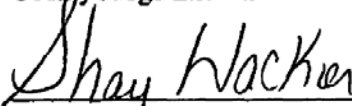
**For The Year Ended June 30, 2020**

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



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County Judge/Executive



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County Treasurer