

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

**For The Fiscal Year Ended  
June 30, 2015**



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

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



**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**KNOTT COUNTY FISCAL COURT**

**June 30, 2015**

The Auditor of Public Accounts has completed the audit of the Knott County Fiscal Court for fiscal year ended June 30, 2015.

We have issued an unmodified opinion, based on our audit on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Knott County Fiscal Court. In accordance with OMB Circular A-133, we have issued an unmodified opinion on the compliance requirements that are applicable to Knott County's major federal programs: (CFDA #14.228) and (CFDA #97.036)

**Financial Condition:**

The Knott County Fiscal Court had total receipts of \$10,274,089 and disbursements of \$10,515,494 in fiscal year 2015. This resulted in a total ending fund balance of \$1,567,858, which is a decrease of \$241,405 from the prior year.

**Report Comments:**

- 2015-001 The Knott County Fiscal Court Did Not Have Adequate Accounting Procedures In Place To Prepare A Complete And Accurate Schedule Of Expenditures Of Federal Awards
- 2015-002 The Knott County Fiscal Court Did Not Maintain Adequate Debt Service Records
- 2015-003 The Knott County Fiscal Court Did Not Comply With Bidding Requirements
- 2015-004 The Knott County Fiscal Court Does Not Have Adequate Controls Over Payroll
- 2015-005 The Knott County Fiscal Court Lacks Adequate Internal Controls At The Knott County Sportsplex
- 2015-006 The Knott County Fiscal Court Did Not Properly Handle Disbursement Transactions
- 2015-007 The Knott County Fiscal Court Did Not Follow Procurement Procedures For Non-Emergency Work

**Deposits:**

The fiscal court deposits were insured and collateralized by bank securities or bonds.



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT.....	1
KNOTT COUNTY OFFICIALS .....	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS .....	6
NOTES TO FINANCIAL STATEMENT .....	10
BUDGETARY COMPARISON SCHEDULES .....	23
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES .....	34
SCHEDULE OF CAPITAL ASSETS .....	37
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS .....	38
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	41
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	42
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> .....	45
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	49
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	55
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	





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

To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Zachary Weinberg, Knott County Judge/Executive  
Members of the Knott County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Knott County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Knott County Fiscal Court's financial statement as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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



To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Zachary Weinberg, Knott County Judge/Executive  
Members of the Knott County Fiscal Court

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

As described more fully in Note 1 of the financial statement, the financial statement is prepared by the Knott County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Knott County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Knott County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Knott County Fiscal Court. The budgetary comparison schedules, capital asset schedule, and the Schedule of Expenditure of Federal Awards, as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying budgetary comparison schedules, capital asset schedule, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, capital asset schedule, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statement as a whole.



To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Zachary Weinberg, Knott County Judge/Executive  
Members of the Knott County Fiscal Court

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2016 on our consideration of the Knott County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Knott County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2015-001 The Knott County Fiscal Court Did Not Have Adequate Accounting Procedures In Place To Prepare A Complete And Accurate Schedule Of Expenditures Of Federal Awards
- 2015-002 The Knott County Fiscal Court Did Not Maintain Adequate Debt Service Records
- 2015-003 The Knott County Fiscal Court Did Not Comply With Bidding Requirements
- 2015-004 The Knott County Fiscal Court Does Not Have Adequate Controls Over Payroll
- 2015-005 The Knott County Fiscal Court Lacks Adequate Internal Controls At The Knott County Sportsplex
- 2015-006 The Knott County Fiscal Court Did Not Properly Handle Disbursement Transactions
- 2015-007 The Knott County Fiscal Court Did Not Follow Procurement Procedures For Non-Emergency Work

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

September 27, 2016

KNOTT COUNTY OFFICIALS

For The Year Ended June 30, 2015

**Fiscal Court Members:**

Zachary Weinberg	County Judge/Executive
Jamie Mosley	Magistrate
Avery Shurm	Magistrate
Jeff Dobson	Magistrate
Calvin Waddles	Magistrate

**Other Elected Officials:**

Tim Bates	County Attorney
Ricky Prater	Jailer
Kenneth Gayheart	County Clerk
Judy Collins	Circuit Court Clerk
Dale Richardson	Sheriff
Ed Slone	Property Valuation Administrator
William J Blair	Coroner

**Appointed Personnel:**

Kevin Jacobs	County Treasurer
Debra Moore	Chief Financial Officer

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

**For The Year Ended June 30, 2015**

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

**For The Year Ended June 30, 2015**

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 1,618,134	\$	\$
In Lieu Tax Payments	11,291		
Excess Fees	60,420		
Intergovernmental	354,532	2,380,233	108,046
Charges for Services	205,057		2,292
Miscellaneous	214,880	12,195	
Interest	1,631	2,133	205
Total Receipts	<u>2,465,945</u>	<u>2,394,561</u>	<u>110,543</u>
<b>DISBURSEMENTS</b>			
General Government	1,132,002		
Protection to Persons and Property	1,737		534,736
General Health and Sanitation	4,642		
Social Services			
Recreation and Culture			
Roads		2,415,193	
Bus Services			
Other Transportation Facilities and Services			
Debt Service	3,172	268,303	
Capital Projects		158,771	
Administration	1,118,172	260,907	56,904
Total Disbursements	<u>2,259,725</u>	<u>3,103,174</u>	<u>591,640</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>206,220</u>	<u>(708,613)</u>	<u>(481,097)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Bond Proceeds			
Premium on Bond Issuance			
Discount on Bond Issuance			
Cost of Issuance			
Deposited into Participant Payment Account			
Release of Prior Year Debt Service Revenue			
Payment to Bond Escrow Agent			
Payoff to General Obligation Bond			
Payoff of Financial Obligations			
Transfers From Other Funds	445,285	722,388	515,000
Transfers To Other Funds	(368,012)	(524,285)	
Total Other Adjustments to Cash (Uses)	<u>77,273</u>	<u>198,103</u>	<u>515,000</u>
Net Change in Fund Balance	283,493	(510,510)	33,903
Fund Balance - Beginning	109,553	756,095	4,343
Fund Balance - Ending	<u>\$ 393,046</u>	<u>\$ 245,585</u>	<u>\$ 38,246</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 464,217	\$ 279,801	\$ 37,721
Plus: Deposits In Transit	1,392		726
Less: Outstanding Checks	(72,563)	(34,216)	(201)
Fund Balance - Ending	<u>\$ 393,046</u>	<u>\$ 245,585</u>	<u>\$ 38,246</u>

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

**KNOTT COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>Budgeted Funds</b>					
<b>Local Government Economic Assistance Fund</b>	<b>State Grants Fund</b>	<b>Federal Grants Fund</b>	<b>Emergency Management Fund</b>	<b>Forestry Fund</b>	<b>Sports Complex Fund</b>
\$	\$	\$	\$	\$ 3,065	\$
2,266,840	1,494,932	298,500	164,943		
26,760					324,745
103,669	22,000				19,542
1,103	952	2	141	190	153
<u>2,398,372</u>	<u>1,517,884</u>	<u>298,502</u>	<u>165,084</u>	<u>3,255</u>	<u>344,440</u>
26,581	44,848				
193,793	108,034			7,118	
190,002	397,156				
206,220	23,887				
461,814	122,088				511,900
	41,350				
97,007					
47,712					
329,469		298,500			
<u>1,552,598</u>	<u>737,363</u>	<u>298,500</u>	<u></u>	<u>7,118</u>	<u>57,423</u>
					<u>569,323</u>
845,774	780,521	2	165,084	(3,863)	(224,883)
464,404	112,800				236,000
(1,229,818)	(971,209)		(172,358)		
(765,414)	(858,409)		(172,358)		236,000
80,360	(77,888)	2	(7,274)	(3,863)	11,117
71,703	98,516	294	27,034	24,939	12,391
<u>\$ 152,063</u>	<u>\$ 20,628</u>	<u>\$ 296</u>	<u>\$ 19,760</u>	<u>\$ 21,076</u>	<u>\$ 23,508</u>
\$ 171,021	\$ 20,628	\$ 296	\$ 19,760	\$ 23,194	\$ 29,159
(18,958)				(2,118)	(5,651)
<u>\$ 152,063</u>	<u>\$ 20,628</u>	<u>\$ 296</u>	<u>\$ 19,760</u>	<u>\$ 21,076</u>	<u>\$ 23,508</u>

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

**KNOTT COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2015**  
**(Continued)**

	<u>Budgeted Funds</u>		<u>Unbudgeted Funds</u>	
	<u>E-911 Fund</u>	<u>Debt Service Fund</u>	<u>2015 Lease Fund</u>	<u>Total Funds</u>
<b>RECEIPTS</b>				
Taxes	\$ 98,646	\$	\$	\$ 1,719,845
In Lieu Tax Payments				11,291
Excess Fees				60,420
Intergovernmental		476,500		7,544,526
Charges for Services				558,854
Miscellaneous	44			372,330
Interest	136	177		6,823
Total Receipts	<u>98,826</u>	<u>476,677</u>		<u>10,274,089</u>
<b>DISBURSEMENTS</b>				
General Government				1,203,431
Protection to Persons and Property				845,418
General Health and Sanitation	113,148			704,948
Social Services				230,107
Recreation and Culture				1,095,802
Roads				2,456,543
Bus Services				97,007
Other Transportation Facilities and Services				47,712
Debt Service		1,282,905		1,554,380
Capital Projects				786,740
Administration				1,493,406
Total Disbursements	<u>113,148</u>	<u>1,282,905</u>		<u>10,515,494</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(14,322)</u>	<u>(806,228)</u>		<u>(241,405)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Bond Proceeds			6,620,000	6,620,000
Premium on Bond Issuance			266,436	266,436
Discount on Bond Issuance			(72,489)	(72,489)
Cost of Issuance			(76,643)	(76,643)
Deposited into Participant Payment Account			(84,350)	(84,350)
Release of Prior Year Debt Service Revenue			195,856	195,856
Payment to Bond Escrow Agent			(6,193,655)	(6,193,655)
Payoff to General Obligation Bond			(462,012)	(462,012)
Payoff of Financial Obligations			(193,143)	(193,143)
Transfers From Other Funds		769,805		3,265,682
Transfers To Other Funds				(3,265,682)
Total Other Adjustments to Cash (Uses)		<u>769,805</u>		
Net Change in Fund Balance	(14,322)	(36,423)		(241,405)
Fund Balance - Beginning	33,121	671,274		1,809,263
Fund Balance - Ending	<u>\$ 18,799</u>	<u>\$ 634,851</u>	<u>\$ 0</u>	<u>\$ 1,567,858</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 18,873	\$ 634,851	\$	\$ 1,699,521
Deposits In Transit				2,118
Less Outstanding Checks	(74)			(133,781)
Ending Fund Balance	<u>\$ 18,799</u>	<u>\$ 634,851</u>	<u>\$ 0</u>	<u>\$ 1,567,858</u>

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

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	10
NOTE 2.	DEPOSITS .....	13
NOTE 3.	TRANSFERS .....	14
NOTE 4.	LONG-TERM DEBT.....	14
NOTE 5.	EMPLOYEE RETIREMENT SYSTEM.....	16
NOTE 6.	DEFERRED COMPENSATION.....	18
NOTE 7.	INSURANCE .....	18
NOTE 8.	RELATED PARTY TRANSACTIONS.....	19
NOTE 9.	PRIOR PERIOD ADJUSTMENT .....	19

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

**June 30, 2015**

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

**A. Reporting Entity**

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

The Knott County Justice Center Corporation would have been included in the reporting entity under accounting principles generally accepted in the United State of America (GAAP) as established by the Government Accounting Standards Board. However under the regulatory basis they are no longer are required components of the reporting entity.

**B. Basis of Accounting**

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

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

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

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

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



**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

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

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

Road Fund - This fund is for road and bridge construction and repair. The primary source 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 government, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

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

State Grants Fund - The primary purpose of this fund is to account for the grants that are received from various state agencies earmarked for specific projects. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Federal Grants Fund - The primary purpose of this fund is to account for the grants that are received from the federal government earmarked for specific projects. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Emergency Management Fund - The primary purpose of this fund is to account for the grants that are received from various state and federal agencies earmarked for disaster related projects. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

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

Sports Complex Fund - The primary purpose of this fund is to account for the receipts and disbursements of the Sportsplex. It is primarily funded through charges for service and transfers from other funds.

E-911 Fund - The primary purpose of this fund is to account for the tax receipts and disbursements related to maintaining the local E-911 service.

Debt Service Fund - This fund contains the Youth Center general obligation bond issue and the Justice Center Corporation bond issue. Debt service funds are to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**Unbudgeted Fund**

The fiscal court reports the following unbudgeted fund:

2015 Lease Fund - The purpose of this fund is to account for debt service requirements in relation to the payoff of three bonds. The Department for Local Government does not require the fiscal court to report or budget this fund.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

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

**D. Budgetary Information**

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

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

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

**E. Knott County Elected Officials**

Kentucky law provides for election of the officials listed below from the geographic area constituting Knott County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Knott County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**F. Deposits and Investment**

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

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

**G. Long-term Obligations**

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

**H. Joint Ventures**

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Based upon these criteria, Kentucky River Regional Jail is considered a joint venture of the Knott County Fiscal Court and Perry County Fiscal Court.

Kentucky River Regional Jail

On June 29, 2005, Knott and Perry Counties (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the maintenance and financing of the Kentucky River Regional Jail. Pursuant to this interlocal agreement, Perry County financed the acquisition and construction of the Kentucky River Regional Jail. On November 1, 2007, the Perry County Fiscal Court issued \$4,975,000 of General Obligation Bonds to refund the Perry County Detention Center Bond from December 2001.

Pursuant to the lease and sublease, each participating county covenants to meet its proportionate share of the debt service requirements on the bond as follows (the “proportionate share” or “use allowance”): 75% for Perry County and 25% for Knott County.

**Note 2. Deposits**

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government’s deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Road Fund	LGEA Fund	State Grants Fund	Emergency Management Fund	Total Transfers In
General Fund	\$	\$ 304,285	\$ 100,000	\$ 41,000	\$	\$ 445,285
Road Fund	107,012		447,018	20,000	148,358	722,388
Jail Fund	100,000		415,000			515,000
LGEA Fund	100,000	200,000		140,404	24,000	464,404
State Grants Fund	41,000	20,000	51,800			112,800
Sports Complex Fund	20,000		216,000			236,000
Debt Service Fund				769,805		769,805
Total Transfers Out	<u>\$ 368,012</u>	<u>\$ 524,285</u>	<u>\$1,229,818</u>	<u>\$ 971,209</u>	<u>\$ 172,358</u>	<u>\$ 3,265,682</u>

Reason for transfers:

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

**Note 4. Long-term Debt**

**A. General Obligation Road Bonds, Series 2007**

The fiscal court issued \$1,500,000 in obligations during 2007. The bonds are payable in semi-annual installments, principal and interest, beginning January 1, 2008. Interest accrues at the rate of 5.5%. The fiscal court issued the bonds for various road projects. On February 24, 2015, the county issued a general obligation lease that paid this bond in full.

**B. General Obligation Bonds, Series 2002**

The Knott County, Kentucky Justice Center Corporation issued \$4,085,000 First Mortgage Refunding Revenue bonds dated October 19, 2011. The bonds are payable in annual installments with the interest payable in semi-annual installments, beginning April 1, 2012. Interest accrues at rates of 1.0% to 3.25%. As of June 30, 2015, the principal balance outstanding was \$3,390,000. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest And Other Fees
2016	\$ 395,000	\$ 83,700
2017	400,000	75,750
2018	405,000	67,700
2019	415,000	59,500
2020	425,000	49,506
2021-2023	<u>1,350,000</u>	<u>70,556</u>
Totals	<u>\$ 3,390,000</u>	<u>\$ 406,712</u>

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

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

**C. General Obligation Improvement Bonds, Series 2006**

The Knott County Fiscal Court issued \$8,450,000 in General Obligation Improvement Bonds to build the Youth and Recreation Center during fiscal year 2006. The bonds are payable in annual installments with the interest payable in semi-annual installments, beginning March 1, 2007. On February 24, 2015, the county issued a General Obligation Lease to eliminate this debt; however, the Series 2006 bond is not callable until September 1, 2016. Per the Series 2015 Bond agreement, an escrow account was established and \$5,802,787 was deposited into the account to refund the bond to meet the principal and interest requirements. The county will not recognize this debt. Also, the county is required to make two payments in fiscal years ending June 30, 2016 and June 30, 2017 totaling \$772,125. Remaining escrow payments are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 360,000	\$ 27,750
2017	375,000	9,375
Totals	<u>\$ 735,000</u>	<u>\$ 37,125</u>

**D. Financing Obligation – Road Repairs**

The Knott County Fiscal Court entered into a lease with Republic Bank & Trust Company for road repairs. The original amount of the lease was \$350,000. The agreement required monthly payments in the amount of \$5,833 including interest. The lease was scheduled to mature on October 20, 2017. On February 24, 2015, the county issued a general obligation lease that paid this lease in full.

**E. Financing Obligation – Long Term Lease**

The Knott County Fiscal Court received lease proceeds in the amount of \$6,620,000 to pay off two general obligation bonds and one financing obligation. Lease principal payments are due in annual installments with the interest payable in semi-annual installments, beginning December 20, 2015. Interest accrues at rates of 2% to 3%. As of June 30, 2015, the remaining principal balance outstanding was \$6,620,000. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 320,000	\$ 204,893
2017	325,000	198,700
2018	570,000	186,087
2019	465,000	169,138
2020	480,000	153,800
2021-2028	<u>4,460,000</u>	<u>609,250</u>
Totals	<u>\$ 6,620,000</u>	<u>\$ 1,521,868</u>

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

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

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

Long-term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligations Bonds	\$ 11,122,179	\$	\$ 7,732,179	\$ 3,390,000	\$ 715,000
Financing Obligations	233,333	6,620,000	233,333	6,620,000	320,000
Total Long-term Debt	<u>\$ 11,355,512</u>	<u>\$ 6,620,000</u>	<u>\$ 7,965,512</u>	<u>\$ 10,010,000</u>	<u>\$ 1,035,000</u>

**Note 5. Employee Retirement System**

**A. Plan Description**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous and hazardous duty positions in the county. The Plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 34.31 percent.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute five percent (nonhazardous) and eight percent (hazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) and seven and one-half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2013 was \$477,900, FY 2014 was \$460,546, and FY 2015 was \$451,021.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

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

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

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.

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

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

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

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

Hazardous employees whose participation began on or after July 1, 2003, earn 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, such 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.

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.

**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

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

B. Net Pension Liability

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Knott County's proportionate share of the net pension liability as of June 30, 2015 is:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Hazardous	\$ 2,885,000	\$ 2,550,000
Non-Hazardous	566,000	507,000
Totals	<u>\$ 3,451,000</u>	<u>\$ 3,057,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at [www.kyret.ky.gov](http://www.kyret.ky.gov) or can be obtained as described in the paragraph above.

**Note 6. Deferred Compensation**

The Knott County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 7. Insurance**

For the fiscal year ended June 30, 2015, Knott County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.



**KNOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 8. Related Party Transactions**

In August 2014, the Knott County Fiscal Court voted and approved the purchase of a 2010 GMC Yukon from the Bank of Hindman for \$15,000. The county judge/executive has a small ownership in the Bank of Hindman.

**Note 9. Prior Period Adjustment**

The debt service fund was decreased by \$931 due to a prior period misstatement.

THIS PAGE LEFT BLANK INTENTIONALLY

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

**For The Year Ended June 30, 2015**



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

**For The Year Ended June 30, 2015**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 1,422,500	\$ 1,785,500	\$ 1,618,134	\$ (167,366)
In Lieu Tax Payments	12,000	13,000	11,291	(1,709)
Excess Fees	20,000	61,500	60,420	(1,080)
Intergovernmental	340,630	384,130	354,532	(29,598)
Charges for Services	110,000	262,000	205,057	(56,943)
Miscellaneous	250,000	261,100	214,880	(46,220)
Interest	1,100	1,400	1,631	231
Total Receipts	<u>2,156,230</u>	<u>2,768,630</u>	<u>2,465,945</u>	<u>(302,685)</u>
<b>DISBURSEMENTS</b>				
General Government	967,492	1,211,961	1,132,002	79,959
Protection to Persons and Property	2,300	4,050	1,737	2,313
General Health and Sanitation	4,000	5,650	4,642	1,008
Debt Service	3,172	3,172	3,172	
Administration	1,247,951	1,714,623	1,118,172	596,451
Total Disbursements	<u>2,224,915</u>	<u>2,939,456</u>	<u>2,259,725</u>	<u>679,731</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(68,685)</u>	<u>(170,826)</u>	<u>206,220</u>	<u>377,046</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	204,285	445,285	445,285	
Transfers To Other Funds	(175,600)	(384,012)	(368,012)	16,000
Total Other Adjustments to Cash (Uses)	<u>28,685</u>	<u>61,273</u>	<u>77,273</u>	<u>16,000</u>
Net Change in Fund Balance	(40,000)	(109,553)	283,493	393,046
Fund Balance Beginning	<u>40,000</u>	<u>109,553</u>	<u>109,553</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 393,046</u>	<u>\$ 393,046</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 2,051,085	\$ 2,576,585	\$ 2,380,233	\$ (196,352)
Miscellaneous	10,450	14,450	12,195	(2,255)
Interest	6,400	6,400	2,133	(4,267)
Total Receipts	<u>2,067,935</u>	<u>2,597,435</u>	<u>2,394,561</u>	<u>(202,874)</u>
<b>DISBURSEMENTS</b>				
Roads	1,706,400	2,560,100	2,415,193	144,907
Debt Service	197,100	276,258	268,303	7,955
Capital Projects	80,000	160,000	158,771	1,229
Administration	540,850	320,317	260,907	59,410
Total Disbursements	<u>2,524,350</u>	<u>3,316,675</u>	<u>3,103,174</u>	<u>213,501</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(456,415)</u>	<u>(719,240)</u>	<u>(708,613)</u>	<u>10,627</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	160,700	723,030	722,388	(642)
Transfers To Other Funds	(204,285)	(759,885)	(524,285)	235,600
Total Other Adjustments to Cash (Uses)	<u>(43,585)</u>	<u>(36,855)</u>	<u>198,103</u>	<u>234,958</u>
Net Change in Fund Balance	(500,000)	(756,095)	(510,510)	245,585
Fund Balance Beginning	<u>500,000</u>	<u>756,095</u>	<u>756,095</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 245,585</u>	<u>\$ 245,585</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 101,700	\$ 115,700	\$ 108,046	\$ (7,654)
Miscellaneous	500	2,500	2,292	(208)
Interest	250	250	205	(45)
Total Receipts	<u>102,450</u>	<u>118,450</u>	<u>110,543</u>	<u>(7,907)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	618,325	616,726	534,736	81,990
Administration	90,025	101,967	56,904	45,063
Total Disbursements	<u>708,350</u>	<u>718,693</u>	<u>591,640</u>	<u>127,053</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(605,900)</u>	<u>(600,243)</u>	<u>(481,097)</u>	<u>119,146</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>595,900</u>	<u>595,900</u>	<u>515,000</u>	<u>(80,900)</u>
Total Other Adjustments to Cash (Uses)	<u>595,900</u>	<u>595,900</u>	<u>515,000</u>	<u>(80,900)</u>
Net Change in Fund Balance	(10,000)	(4,343)	33,903	38,246
Fund Balance Beginning	<u>10,000</u>	<u>4,343</u>	<u>4,343</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 38,246</u>	<u>\$ 38,246</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	1,841,000	2,483,245	2,266,840	(216,405)
Charges for Services	22,500	33,000	26,760	(6,240)
Miscellaneous	17,000	115,700	103,669	(12,031)
Interest	950	1,200	1,103	(97)
Total Receipts	1,881,450	2,633,145	2,398,372	(234,773)
<b>DISBURSEMENTS</b>				
General Government	65,850	34,630	26,581	8,049
Protection to Persons and Property	174,376	241,806	193,793	48,013
General Health and Sanitation	158,300	217,600	190,002	27,598
Social Services	185,400	222,700	206,220	16,480
Recreation and Culture	294,200	495,675	461,814	33,861
Roads	52,500	101,200	97,007	4,193
Debt Service	79,300	79,300	47,712	31,588
Administration	440,524	758,416	329,469	428,947
Total Disbursements	1,450,450	2,151,327	1,552,598	598,729
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	431,000	481,818	845,774	363,956
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds		639,697	464,404	(175,293)
Transfers To Other Funds	(706,000)	(1,193,218)	(1,229,818)	(36,600)
Total Other Adjustments to Cash (Uses)	(706,000)	(553,521)	(765,414)	(211,893)
Net Change in Fund Balance	(275,000)	(71,703)	80,360	152,063
Fund Balance Beginning	275,000	71,703	71,703	
Fund Balance - Ending	\$ 0	\$ 0	\$ 152,063	\$ 152,063



**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>STATE GRANTS FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	1,550,000	1,842,000	1,494,932	(347,068)
Miscellaneous		22,000	22,000	
Interest	1,500	1,500	952	(548)
Total Receipts	<u>1,551,500</u>	<u>1,865,500</u>	<u>1,517,884</u>	<u>(347,616)</u>
<b>DISBURSEMENTS</b>				
General Government	1,000	45,900	44,848	1,052
Protection to Persons and Property		110,294	108,034	2,260
General Health and Sanitation	500,000	401,600	397,156	4,444
Social Services	25,000	40,000	23,887	16,113
Recreation and Culture	150,000	145,206	122,088	23,118
Roads		41,350	41,350	
Administration	123,050	193,419		193,419
Total Disbursements	<u>799,050</u>	<u>977,769</u>	<u>737,363</u>	<u>240,406</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>752,450</u>	<u>887,731</u>	<u>780,521</u>	<u>(107,210)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds		112,800	112,800	
Transfers To Other Funds	(772,450)	(1,099,047)	(971,209)	127,838
Total Other Adjustments to Cash (Uses)	<u>(772,450)</u>	<u>(986,247)</u>	<u>(858,409)</u>	<u>127,838</u>
Net Change in Fund Balance	(20,000)	(98,516)	(77,888)	20,628
Fund Balance Beginning	<u>20,000</u>	<u>98,516</u>	<u>98,516</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20,628</u>	<u>\$ 20,628</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

	<b>FEDERAL GRANTS FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 330,000	\$ 330,000	\$ 298,500	\$ (31,500)
Interest	2	3	2	(1)
Total Receipts	<u>330,002</u>	<u>330,003</u>	<u>298,502</u>	<u>(31,501)</u>
<b>DISBURSEMENTS</b>				
General Health and Sanitation	30,000	30,000		30,000
Capital Projects	300,000	300,000	298,500	1,500
Administration	295	297		297
Total Disbursements	<u>330,295</u>	<u>330,297</u>	<u>298,500</u>	<u>297</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(293)</u>	<u>(294)</u>	<u>2</u>	<u>(31,204)</u>
Net Change in Fund Balance	(293)	(294)	2	296
Fund Balance Beginning	<u>293</u>	<u>294</u>	<u>294</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 296</u>	<u>\$ 296</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

**EMERGENCY MANAGEMENT FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	120,000	224,000	164,943	(59,057)
Interest	185	185	141	(44)
Total Receipts	<u>120,185</u>	<u>224,185</u>	<u>165,084</u>	<u>(59,101)</u>
<b>DISBURSEMENTS</b>				
Roads	120,000	75,000		75,000
Administration	2,985	107,219		107,219
Total Disbursements	<u>122,985</u>	<u>182,219</u>		<u>182,219</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,800)</u>	<u>41,966</u>	<u>165,084</u>	<u>123,118</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds		104,000		(104,000)
Transfers To Other Funds		(173,000)	(172,358)	642
Total Other Adjustments to Cash (Uses)		<u>(69,000)</u>	<u>(172,358)</u>	<u>(103,358)</u>
Net Change in Fund Balance	(2,800)	(27,034)	(7,274)	19,760
Fund Balance Beginning	2,800	27,034	27,034	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 19,760</u>	<u>\$ 19,760</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>FORESTRY FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 2,100	\$ 5,700	\$ 3,065	\$ (2,635)
Interest	130	190	190	
Total Receipts	<u>2,230</u>	<u>5,890</u>	<u>3,255</u>	<u>(2,635)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	2,500	7,500	7,118	382
Administration	26,730	23,329		23,329
Total Disbursements	<u>29,230</u>	<u>30,829</u>	<u>7,118</u>	<u>23,711</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(27,000)</u>	<u>(24,939)</u>	<u>(3,863)</u>	<u>21,076</u>
Net Change in Fund Balance	(27,000)	(24,939)	(3,863)	21,076
Fund Balance Beginning	<u>27,000</u>	<u>24,939</u>	<u>24,939</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 21,076</u>	<u>\$ 21,076</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>SPORTS COMPLEX FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Charges for Services	\$ 305,000	\$ 335,000	\$ 324,745	\$ (10,255)
Miscellaneous	19,000	38,000	19,542	(18,458)
Interest	125	200	153	(47)
Total Receipts	<u>324,125</u>	<u>373,200</u>	<u>344,440</u>	<u>(28,760)</u>
<b>DISBURSEMENTS</b>				
Recreation and Culture	390,150	541,350	511,900	29,450
Administration	61,475	60,241	57,423	2,818
Total Disbursements	<u>451,625</u>	<u>601,591</u>	<u>569,323</u>	<u>32,268</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(127,500)</u>	<u>(228,391)</u>	<u>(224,883)</u>	<u>3,508</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	125,000	236,000	236,000	
Transfers To Other Funds		(20,000)		20,000
Total Other Adjustments to Cash (Uses)	<u>125,000</u>	<u>216,000</u>	<u>236,000</u>	<u>20,000</u>
Net Change in Fund Balance	(2,500)	(12,391)	11,117	23,508
Fund Balance Beginning	<u>2,500</u>	<u>12,391</u>	<u>12,391</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,508</u>	<u>\$ 23,508</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>E-911 FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 103,500	\$ 103,500	\$ 98,646	\$ (4,854)
Miscellaneous	100	144	44	(100)
Interest	140	140	136	(4)
Total Receipts	<u>103,740</u>	<u>103,784</u>	<u>98,826</u>	<u>(4,958)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	101,350	136,350	113,148	23,202
Administration	25,390	555		555
Total Disbursements	<u>126,740</u>	<u>136,905</u>	<u>113,148</u>	<u>23,757</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(23,000)</u>	<u>(33,121)</u>	<u>(14,322)</u>	<u>18,799</u>
Net Change in Fund Balance	(23,000)	(33,121)	(14,322)	18,799
Fund Balance Beginning	<u>23,000</u>	<u>33,121</u>	<u>33,121</u>	<u></u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,799</u>	<u>\$ 18,799</u>

**KNOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>DEBT SERVICE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 404,900	\$ 482,350	\$ 476,500	\$ (5,850)
Interest	400	400	177	(223)
Total Receipts	<u>405,300</u>	<u>482,750</u>	<u>476,677</u>	<u>(6,073)</u>
<b>DISBURSEMENTS</b>				
Debt Service	1,177,350	1,288,850	1,282,905	5,945
Administration	673,200	638,555		638,555
Total Disbursements	<u>1,850,550</u>	<u>1,927,405</u>	<u>1,282,905</u>	<u>644,500</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,445,250)</u>	<u>(1,444,655)</u>	<u>(806,228)</u>	<u>638,427</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	772,450	772,450	769,805	(2,645)
Total Other Adjustments to Cash (Uses)	<u>772,450</u>	<u>772,450</u>	<u>769,805</u>	<u>(2,645)</u>
Net Change in Fund Balance	(672,800)	(672,205)	(36,423)	635,782
Fund Balance Beginning	<u>672,800</u>	<u>672,205</u>	<u>671,274</u>	<u>(931)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 634,851</u>	<u>\$ 634,851</u>

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

**June 30, 2015**

**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 Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

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

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



**KNOTT COUNTY**  
**SUPPLEMENTARY SCHEDULE**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**



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

**For The Year Ended June 30, 2015**

The fiscal court reports the following schedule of capital assets:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 1,054,505	\$	\$	\$ 1,054,505
Construction In Progress	16,750		16,750	
Buildings	23,584,118	451,656		24,035,774
Vehicles & Equipment	2,138,036	249,794		2,387,830
Infrastructure	8,473,996	797,069		9,271,065
 Total Capital Assets	 <u>\$ 35,267,405</u>	 <u>\$ 1,498,519</u>	 <u>\$ 16,750</u>	 <u>\$36,749,174</u>

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

**June 30, 2015**

**Note 1. Capital Assets**

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

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

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



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

**Fiscal Year Ended June 30, 2015**

Federal Grantor CFDA #	Program Title	Pass-Through Grantor's Number	Expenditures	Provided to Subrecipient
<b><u>U. S Department of Housing and Urban Development</u></b>				
<i>Passed-Through State Department for Local Government:</i>				
14.228	Community Development Block Grants/State's Program	14-054	** \$ 298,500	\$ 298,500
<b>Total U.S. Department of Housing and Urban Development</b>			<u>298,500</u>	<u>298,500</u>
<b><u>Corporation for National and Community Service</u></b>				
<i>Passed-Through State Department of Justice-ARRA:</i>				
94.016	Senior Companion Program	PO 72514000010663	\$ 103,047	\$
<b>Total Corporation for National and Community Service</b>			<u>103,047</u>	<u></u>
<b><u>U.S. Department of Agriculture</u></b>				
<i>Passed-Through State Department of Energy-ARRA:</i>				
10.923	Emergency Watershed Protection Program	Not Available	\$ 109,014	\$
<b>Total U.S. Department of Agriculture</b>			<u>109,014</u>	<u></u>
<b><u>U.S. Department of Homeland Security</u></b>				
<i>Passed-Through State Department of Military Affairs:</i>				
97.036	Disaster Grants - Public Assistance Flood August 2014	PO2 095 1500001912 1	** 248,386	\$
97.036	Disaster Grants - Public Assistance Snow Removal February 2015	PO2 095 1500047341 1	** 7,738	
97.036	Disaster Grants - Public Assistance Flood March 2015	PO2 095 1600006701 1	** 103,340	
Total Disaster Grants - Public Assistance			359,464	
97.042	Emergency Management Performance Grants	PO2 09516000021481	14,534	
<b>Total U.S. Department of Homeland Security</b>			<u>373,998</u>	<u></u>
Total Expenditures of Federal Awards			<u>\$ 884,559</u>	<u>\$ 298,500</u>

\*\*Tested as Major Program or Cluster

**KNOTT COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2015**

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Knott County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 - Determination of Major Program

A Type A program for the fiscal court is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2015 or were deemed high risk. The major programs tested were:

CFDA #97.036 Disaster Grants – Public Assistance (Presidentially Declared Disasters)  
CFDA #14.228 Community Development Block Grant/State's Program

Note 3 - Noncash Expenditures

There were no noncash expenditures of federal awards for fiscal year 2015.

Note 4 - Pass-Through Agency

Knott County was a pass through agency and distributed \$298,500 of Community Development Block Grant/State's Program funds to Kentucky River Community Care.



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





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

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

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Knott County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Knott County Fiscal Court's financial statement and have issued our report thereon dated September 27, 2016.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompany schedule of findings and questioned costs as items 2015-001 and 2015-003 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2015-002, 2015-004, 2015-005, and 2015-006 to be significant deficiencies.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Knott County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2015-003.

**County Judge/Executive's Responses to Findings**

The Knott County Judge/Executive's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Knott County Judge/Executive'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

September 27, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**





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

Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With OMB Circular A-133

Independent Auditor's Report

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

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

We have audited the Knott County Fiscal Court's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Knott County Fiscal Court's major federal programs for the year June 30, 2015. The Knott County Fiscal Court's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Knott County Fiscal Court's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Knott County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

In our opinion, the Knott County Fiscal Court has complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.



Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With OMB Circular A-133  
(Continued)

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-006 and 2015-007. Our opinion on each major federal program is not modified with respect to these matters.

The Knott County Fiscal Court's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Knott County Fiscal Court's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the Knott County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Knott County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Knott County Fiscal Court's internal control over compliance.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-007 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-006 to be a significant deficiency.

The Knott County Fiscal Court's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Knott County Fiscal Court's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With OMB Circular A-133  
(Continued)

**Report on Internal Control over Compliance (Continued)**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

September 27, 2016

THIS PAGE LEFT BLANK INTENTIONALLY

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

**For The Year Ended June 30, 2015**



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

**Fiscal Year Ended June 30, 2015**

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

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

**Federal Awards**

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major programs:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Are any audit findings disclosed that are required to be reported in accordance with <i>U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, Section .510(a)</i>	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Identification of major programs:

CFDA Numbers and Name of Federal Program or Cluster

CFDA – 97.036 Disaster Grants – Public Assistance CFDA - 14.228 Community Development Block Grants/State's Program
---

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Is the auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**KNOTT COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section II: Findings - Financial Statement Audit**

2015-001 The Knott County Fiscal Court Did Not Have Adequate Accounting Procedures In Place To Prepare A Complete And Accurate Schedule Of Expenditures Of Federal Awards

---

The Schedule of Expenditures of Federal Awards (SEFA) prepared by the fiscal court did not accurately represent amounts expended for federal programs. The fiscal court's disbursements ledger does not separate federal expenditures from other expenditures, which makes it difficult for the county treasurer to identify amounts expended for federal programs in order to prepare an accurate SEFA. Failing to prepare a complete and accurate SEFA increases the risk of misstating the county's financial statements. Management is responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133. A SEFA should have the following elements:

- A listing of individual federal programs by federal agency.
- Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- Provide total federal awards expended for each individual federal program and the Catalogue of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.
- Include notes that describe the significant accounting policies used in preparing the schedule.
- To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each federal program.

We recommend that the fiscal court implement accounting procedures that specifically identify federal expenditures in order to ensure that a complete and accurate Schedule of Expenditures of Federal Awards is prepared.

*County Judge/Executive Zachary Weinberg's Response: We are working to correct the issue indicated.*

2015-002 The Knott County Fiscal Court Did Not Maintain Adequate Debt Service Records

---

The Knott County Fiscal Court did not have debt service records available for a new lease totaling \$6,853,333. The county treasurer did not maintain a copy of the General Obligation Lease Agreement signed by the county judge/executive. The county treasurer and the county judge/executive were not able to give the auditors general information about the refunding lease in order to audit the new lease proceeds. The county treasurer did not maintain a financial statement detailing the sources and uses of the lease proceeds. Internal controls have not been implemented to ensure debt service records are being adequately maintained and that financial statements are prepared to account for all debt service activity. As a result the auditors had to contact outside sources in order obtain the information needed to audit the lease proceeds. The fiscal court is financially accountable and legally obligated to maintain debt service records for all lease or bond proceeds the county receives and disburses. We recommend the county establish a uniform system of recordkeeping for all debt service activity.

*County Judge/Executive Zachary Weinberg's Response: Not sure what auditors are referring to. Information is attached.*

**Auditor's Response:** Debt service documentation for the new lease obligation was not provided during the audit. Auditors contacted outside sources to obtain debt service records.

**KNOTT COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

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

2015-003 The Knott County Fiscal Court Did Not Comply With Bidding Requirements

---

The Knott County Fiscal Court entered into a contract in the amount of \$47,550 for repairs on the Knott County swimming pool. The repairs included labor, pumps, a pool vacuum, paint and other miscellaneous items. The Knott County Fiscal Court appeared to be aware of the bidding requirements per KRS 424.260; however, since the project was an insurance reimbursement and the county judge/executive stated the project was not bid because only one contractor in the area was qualified to perform the work. Competitive bidding ensures that the county procures materials and services at the best price available. By limiting competition, the county may not get this benefit.

KRS 424.260(1) states, "Except 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 for perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids."

We recommend that the fiscal court follow the requirements of KRS 424.260 and the county's administrative policy. Purchases of \$20,000 or more should be competitively bid unless the requirements for negotiated procurement has been met.

*County Judge/Executive Zachary Weinberg's Response: We were directed by the Insurance Company to submit an estimate to our choosing. Since [company name] were the ones to originally install the pool equipment, and service the equipment, we told them to submit an estimate. After the estimate was submitted, we received a parcel payment of \$32,785.00 at this point we directed [company name] to repair the pool so we could be open for summer season. After completion we received an additional \$14,265 and close the file. It would have not be feasible or make sense to bid this job at the time. This was a negotiated procurement by the insurance company and was paid by the insurance company.*

**Auditors Responses:** Auditors received a letter from the insurance company that detailed the process of this claim. The claim was received by the insurance company on September 11<sup>th</sup>, 2014. On September 15<sup>th</sup>, 2014 an appraiser was assigned. One estimate was received on January 12, 2015 and the letter stated that the appraiser was not involved with choosing or recommending a contractor. There was adequate time for the Knott County Fiscal Court to advertise for bids for this project from September 2014 through January 2015. The Knott County Fiscal Court's administrative code states that any project or purchase of materials totaling at least \$20,000 requires that the Judge/Executive or his designee solicit bids.

2015-004 The Knott County Fiscal Court Does Not Have Adequate Controls Over Payroll

---

We noted the following control deficiencies during our test of payroll:

- One timesheet was not signed by a supervisor.
- One timesheet was missing.
- Personnel files did not have documentation verifying deductions from employees payroll check.

**KNOTT COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

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

2015-004 The Knott County Fiscal Court Does Not Have Adequate Controls Over Payroll (Continued)

---

Since the county failed to maintain signed timesheets, employee hours worked could not be substantiated. In addition, the auditors were unable to verify that proper deductions were withheld from employee paychecks because the county did not maintain written authorization from employees. KRS 337.320 states that every employer shall keep a record of the amount paid each pay period to each employee and the hours worked each day and each week by every employee. Good internal controls dictate that personnel files contain documentation verifying any deductions from an employee's payroll check. We recommend the fiscal court strengthen controls over payroll to ensure timecards are prepared each pay period for all employees. All timesheets should be signed by employees and their supervisor. We also recommend that personnel files be updated with any authorized deductions signed by employees and include their position and pay rate.

*County Judge/Executive Zachary Weinberg's Response: We will update personnel files more often.*

2015-005 The Knott County Fiscal Court Lacks Adequate Internal Controls At The Knott County Sportsplex

---

Our review of the receipts and disbursement process for the Sportsplex revealed weaknesses in internal controls that should be addressed. The Knott County Sportsplex collects money for rental fees, membership fees, concessions, front door ticket sales, driving range, arcades, advertisements, and vending machines. The Sportsplex maintains cash registers at the front desk, the inside concession stand and the outside concession stand. Change funds are maintained at the driving range and at the front door during ticket sales. During basketball season, referees are paid out of the front door cash receipts. Receipts are not issued for collections at the concession stand, driving range and arcade. The Sportsplex director and another employee count the cash each morning and prepare a daily checkout sheet. The Sportsplex director faxes the daily checkout sheet to the county treasurer and makes the daily deposit. If referees are paid out of the cash drawer, the amount is listed on the daily checkout sheet to reduce cash receipts from the day's business. The fiscal court did not implement good internal controls over receipts. Because internal controls are not in place for receipts, money could be misappropriated and go undetected. Good internal controls over cash receipts help safeguard assets from employee theft, robbery, and unauthorized use. Good internal controls also enhance the accuracy and reliability of accounting records by reducing the risk of errors, intentional mistakes, and misrepresentations in the accounting process.

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

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

*County Judge/Executive Zachary Weinberg's Response: The county has implemented a point of sale system at the Sportsplex.*



**KNOTT COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

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

2015-006 The Knott County Fiscal Court Did Not Properly Handle Disbursement Transactions

---

During the course of our audit we found several weaknesses and noncompliances with disbursements. The following issues were noted:

- Four invoices totaling \$495 were paid without approval from the fiscal court prior to the payment.
- Six invoices totaling \$462,905 were not paid within 30 working days. Specifically, KACo insurance premiums were not fully paid until five months after the due date costing the county \$10,604 in finance charges.
- One invoice totaling \$2,654 for FEMA materials was missing.

The county used credit cards for a variety of purposes during fiscal year 2014, including conferences, gasoline and meal purchases. Credit card use is allowable, however all purchases must be evidenced by original, detailed invoices to determine if those purchases are allowable and for county business. Our test of credit card purchases found the following:

- Of the total \$5,072 of credit card charges tested \$150 did not have detailed invoices.
- Accrued and paid interest charges totaling \$157.
- Two out of the six credit card invoices tested were not paid within 30 business days.
- One invoice attached showed no evidence of being paid.

Weak controls over disbursements allowed for invoices not to be approved by the fiscal court, invoices to not be paid within 30 days, interest charges to accrue, detailed invoices missing, and an invoice attached to the credit card statement to not be paid.

If the fiscal court does not approve payments for invoices prior to payments it increases the risk that misstatements of financial activity and/or payments could be paid to vendors that may not be a true liability to the fiscal court. Since the county did not require all purchases to have detailed original invoices attached, we could not determine that payments made for the expenditures were appropriate. Also, since the fiscal court did not pay invoices within 30 days, interest accrued on those invoices.

KRS 68.275 states that all claims should be presented to the fiscal court for review prior to payment. KRS 65.140(2) states that “all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performance or improper invoicing by the vendor or by the vendor’s subcontractor.” The statute also states that if a payment of invoices exceeds 30 days, a 1% interest penalty should be added.

We recommend that the fiscal court implement controls over disbursements that ensure invoices are paid within 30 days, detailed invoices are kept, all invoices are paid, and prevent payment of invoices not presented to the fiscal court.

*County Judge/Executive Zachary Weinberg’s Response: The election officers were paid under an old standing order. We were unable to locate this old order so we have approved a new standing order. All other invoices were approved in the correct manner.*

**KNOTT COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section III: Findings and Questioned Costs – Major Federal Awards Program Audit**

2015-006 The Knott County Fiscal Court Did Not Properly Handle Disbursement Transactions

*Federal Program:* CFDA # 97.036

*Name of Federal Agency:* US Department of Homeland Security

*Pass-Through Agency:* Department of Military Affairs

*Compliance Requirements:* Cash Management

*Type of Finding:* Significant Deficiency in Internal Control Over Compliance

*Amount of Questioned Costs:* \$0

See Section II, Comment 2015-006.

*County Judge Executive Zachary Weinberg's Response and Corrective Action Planned:* See Response at Comment 2015-006.

*Planned Implementation Date of Corrective Action:* None.

*Person Responsible for Corrective Action:* NA.

2015-007 The Knott County Fiscal Court Did Not Follow Procurement Procedures For Non-Emergency Work

*Federal Program:* CFDA # 97.036

*Name of Federal Agency:* US Department of Homeland Security

*Pass-Through Agency:* Department of Military Affairs

*Compliance Requirements:* Activities Allowed or Unallowed and Allowable Cost/Cost Principles

*Type of Finding:* Material Weakness in Internal Control Over Compliance

*Amount of Questioned Costs:* Federal Questioned Costs \$105,398.

Between August 18 and August 23, 2014, severe storms, flooding, mudslides and landslides impacted Knott County, resulting in embankment failures, loss of asphalt, excessive rock and sediment in ditches, shoulder damage, and culvert damage. The county qualified for disaster relief under Federal Emergency Management Agency (FEMA) regulations (disaster #4196). The county expended \$231,668 repairing embankment failures, replacing asphalt, clearing ditches, and repairing shoulder and culvert damage. FEMA classified this project as category C, which is permanent repair work.

Federal grant agreements require applicants to comply with all applicable provisions of federal and state procurement laws and regulations. According to the county's Administrative Code, the county adopted, in its entirety, KRS Chapter 45A, the Kentucky "The Model Procurement Code" (KMPC). Knott County also adopted in their administrative code that any project or purchase of materials totaling at least \$20,000 requires that the judge/executive or his designee solicit bids. According to the KMPC, the county, as a local public agency, may dispense with the requirement of competitive bidding and contract or purchase through noncompetitive negotiation only when 1) a written determination is made that competition is not feasible and 2) it is determined, in writing, by a designee of the county that an emergency exists which will cause public harm as a result of the delay in competitive procedures. Auditors could not confirm there was written determination that competition was not feasible, nor documentation that the fiscal court declared an emergency for the disaster. Thus, the county did not comply with the KMPC in the payment of these expenditures.

A category C project is classified as permanent work. Permanent work defined by FEMA Publication 32 is work that is required to restore damaged facility, through repair and restoration, to its pre-disaster design, function, and capacity in accordance with applicable codes or standards.

**KNOTT COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section III: Findings and Questioned Costs – Major Federal Awards Program Audit (Continued)**

2015-007 The Knott County Fiscal Court Did Not Follow Procurement Procedures For Non-Emergency Work  
 (Continued)

---

During testing we noted that bids were not solicited for any contract work performed. After reviewing the county's administrative code and FEMA handbook, the auditors have questioned costs totaling \$140,531. The total questioned cost is the amount expended for all contract labor performed for this disaster.

The Knott County Fiscal Court treated this federal project as emergency work. However, emergency work defined by FEMA Publication 32 is work that must be performed to reduce or eliminate an immediate threat of life, protect health and safety, and to protect improved property that is threatened in a significant way as a result of the disaster.

Competitive bidding ensures that the county procures materials and service contracts at the best price available. By limiting competition, the county may not get the benefits of the best price available.

We recommend the fiscal court implement controls to ensure compliance with federal awards, including provisions that indicate the entity must comply with all state and local regulations, including the county's administrative code. We further recommend the fiscal court participate in competitive bidding in order to ensure the most efficient use of federal awards.

*County Judge Executive Zachary Weinberg's Response and Corrective Action Planned: This was considered emergency work. We were under a state of emergency by the county, state and Federal Government. Furthermore it was competitive bidding because we used six contractors in the county all using hourly wages approved by the judge's office. This was the most efficient legal way to get the emergency work done.*

*Planned Implementation Date of Corrective Action: None.*

*Person Responsible for Corrective Action: NA.*

Auditor's Response: When the flood occurred August 18, 2014 through August 23, 2014 Federal Emergency Management Agency classified this disaster was a category C project which is for permanent work. The only work that should have been performed without bidding was emergency work, which must be performed to reduce or eliminate an immediate threat of life, protect health and safety, and to protect improved property that is threatened in a significant way as a result of the disaster. According to invoices from contractors that were charged to this project, work was performed through October 17, 2014, which would have been past the initial emergency period and there would have been adequate enough time to solicit bids for permanent work to be performed. Using different contractors does not constitute competitive bidding according to the Knott County Administrative Code.

THIS PAGE LEFT BLANK INTENTIONALLY

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

**KNOTT COUNTY FISCAL COURT**

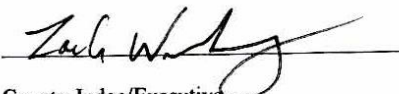
**For The Fiscal Year Ended  
June 30, 2015**

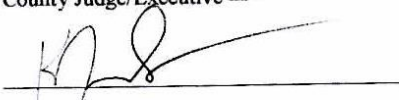


CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
KNOTT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

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

  
\_\_\_\_\_  
County Judge/Executive

  
\_\_\_\_\_  
County Treasurer

