

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

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Michael N. Mitchell, Knox County Judge/Executive

The Honorable J.M. Hall, Former Knox County Judge/Executive

Members of the Knox 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 Knox County Fiscal Court, for the year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the Knox 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.



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Auditor's Responsibility (Continued)

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

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Knox 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 Knox County Fiscal Court as of June 30, 2019, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Knox County Fiscal Court as of June 30, 2019, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Knox County Fiscal Court. The Budgetary Comparison Schedules (supplementary information) and Schedule of Capital Assets (other information) are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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Other Matters (Continued)

Supplementary Information (Continued)

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2020, on our consideration of the Knox 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 Knox County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses Costs included herein, which discusses the following report findings:

- 2019-001 The Knox County Fiscal Court Did Not Provide The Same Level Of Health Insurance Benefits To All County Employees
- 2019-002 The Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- 2019-003 The Knox County Fiscal Court Did Not Budget All County Funds
- 2019-004 The Knox County Fiscal Court Did Not Have Internal Controls Over Disbursements

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

February 27, 2020

KNOX COUNTY OFFICIALS
For The Year Ended June 30, 2019

Fiscal Court Members:

Michael N. Mitchell	County Judge/Executive
Roger C. Mills	Magistrate
Stacey Roark	Magistrate
Tony R. Golden	Magistrate
Jason Smith	Magistrate
Darryl W. Baker	Magistrate

Other Elected Officials:

Gilbert Holland	County Attorney
Mary Hammons	Jailer
Mike Corey	County Clerk
Greg Helton	Circuit Court Clerk
Mike Smith	Sheriff
Bob Blevins	Property Valuation Administrator
Mike Blevins	Coroner

Appointed Personnel:

John Tye	County Treasurer
Jack Ketchum	Assistant County Treasurer
Steve Waren	Deputy Judge Executive
Wayne Willis	Assistant Occupational License Fee Administrator and Enforcement Officer
Tammy Peters	Finance Officer

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

For The Year Ended June 30, 2019

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

For The Year Ended June 30, 2019

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,600,782	\$	\$
Excess Fees	258,509		
Licenses and Permits	135,735		
Intergovernmental	288,049	2,082,895	292,776
Charges for Services	10,490		90,635
Miscellaneous	197,774	295,319	16,291
Interest	14,920	3,022	1,034
Total Receipts	<u>2,506,259</u>	<u>2,381,236</u>	<u>400,736</u>
DISBURSEMENTS			
General Government	1,551,350		
Protection to Persons and Property	56,334		2,173,740
General Health and Sanitation	217,111		
Social Services	32,597		
Recreation and Culture	4,532		
Roads		2,224,265	
Road Facilities			
Debt Service			
Capital Projects			239,248
Administration	887,798	448,604	407,914
Total Disbursements	<u>2,749,722</u>	<u>2,672,869</u>	<u>2,820,902</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(243,463)</u>	<u>(291,633)</u>	<u>(2,420,166)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	2,133,970	150,000	2,075,000
Transfers To Other Funds	(2,523,366)		
Total Other Adjustments to Cash (Uses)	<u>(389,396)</u>	<u>150,000</u>	<u>2,075,000</u>
Net Change in Fund Balance	(632,859)	(141,633)	(345,166)
Fund Balance - Beginning (Restated)	2,301,052	449,948	424,412
Fund Balance - Ending	<u>\$ 1,668,193</u>	<u>\$ 308,315</u>	<u>\$ 79,246</u>
Composition of Fund Balance			
Bank Balance	\$ 1,723,333	\$ 311,640	\$ 118,948
Less: Outstanding Checks	(55,140)	(3,325)	(39,702)
Fund Balance - Ending	<u>\$ 1,668,193</u>	<u>\$ 308,315</u>	<u>\$ 79,246</u>

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

KNOX COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2019
(Continued)

Local Government Economic Assistance Fund	Budgeted Funds					
	911 Fund	Occupational License Fee Fund	South Kentucky Regional Business Park Fund	Hospital Sinking Fund	Health Insurance Escrow Fund	LEPC Fund
\$	\$ 286,942	\$ 2,863,053	\$ 278,215	\$	\$	\$
388,415	100,000			580,225		
	2,329					
6,965	558	1,303	819		36	
395,380	389,829	2,864,356	279,034	580,225	36	
		722,792	266,378			
	449,438					
133,938						
				638,505		
84,752	158,158				16,724	
218,690	607,596	722,792	266,378	638,505	16,724	
176,690	(217,767)	2,141,564	12,656	(58,280)	(16,688)	
	220,000			58,366	20,000	
		(2,133,970)				
	220,000	(2,133,970)		58,366	20,000	
176,690	2,233	7,594	12,656	86	3,312	
739,854	63,108	19,770	197,296	124		1,966
\$ 916,544	\$ 65,341	\$ 27,364	\$ 209,952	\$ 210	\$ 3,312	\$ 1,966
\$ 916,544	\$ 65,413	\$ 27,364	\$ 209,952	\$ 210	\$ 3,312	\$ 1,966
	(72)					
\$ 916,544	\$ 65,341	\$ 27,364	\$ 209,952	\$ 210	\$ 3,312	\$ 1,966

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

KNOX COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2019
(Continued)

	<u>Unbudgeted Funds</u>			<u>Total Funds</u>
	<u>Public Properties Corporation Fund</u>	<u>Jail Construction Fund</u>	<u>Jail Commissary Fund</u>	
RECEIPTS				
Taxes	\$	\$	\$	\$ 5,028,992
Excess Fees				258,509
Licenses and Permits				135,735
Intergovernmental	174,965			3,907,325
Charges for Services				101,125
Miscellaneous			132,918	644,631
Interest	183	173,877	363	203,080
Total Receipts	<u>175,148</u>	<u>173,877</u>	<u>133,281</u>	<u>10,279,397</u>
DISBURSEMENTS				
General Government				2,540,520
Protection to Persons and Property				2,679,512
General Health and Sanitation				217,111
Social Services				32,597
Recreation and Culture			109,366	113,898
Roads				2,224,265
Road Facilities				133,938
Debt Service	174,965			813,470
Capital Projects		8,866,404		9,190,404
Administration				1,919,198
Total Disbursements	<u>174,965</u>	<u>8,866,404</u>	<u>109,366</u>	<u>19,864,913</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>183</u>	<u>(8,692,527)</u>	<u>23,915</u>	<u>(9,585,516)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds				4,657,336
Transfers To Other Funds				(4,657,336)
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balance	183	(8,692,527)	23,915	(9,585,516)
Fund Balance - Beginning (Restated)	<u>6,695</u>	<u>13,501,565</u>	<u>27,870</u>	<u>17,733,660</u>
Fund Balance - Ending	<u>\$ 6,878</u>	<u>\$ 4,809,038</u>	<u>\$ 51,785</u>	<u>\$ 8,148,144</u>
Composition of Fund Balance				
Bank Balance	\$ 6,878	\$ 4,809,038	\$ 52,523	\$ 8,247,121
Less: Outstanding Checks			(738)	(98,977)
Fund Balance - Ending	<u>\$ 6,878</u>	<u>\$ 4,809,038</u>	<u>\$ 51,785</u>	<u>\$ 8,148,144</u>

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

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**KNOX COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2019

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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.

911 Fund - The primary purpose of this fund is to account for the dispatch expenses of the county. The primary source of receipts for this fund is the 911 telephone surcharge.

Occupational License Fee Fund - The primary purpose of this fund is to account for occupational license fee monies collected by the county on behalf of the county of city. The primary source of receipts for this fund is local business owners.

South Kentucky Regional Business Park Fund - The primary purpose of this fund is to account for activities related to the funding of the Business Park. The primary source of receipts for this fund is local business owners.

Hospital Sinking Fund - The primary source of this fund is to account for activities related to the debt activity on the General Obligation Refunding Bonds, Series 2005, Non-Refunded Portion. The primary source of receipts for this fund is transfers from the general fund or payments from the Knox County Hospital.

Health Insurance Escrow Fund - The primary purpose of this fund is to account for activities related to the Health Reimbursement Account. The primary source of receipts for this fund is transfers from the general fund.

Local Emergency Planning Committee (LEPC) Fund - The primary purpose of this fund is to account for emergency planning expenses of the county. The primary source of receipts for this fund is state grants.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for receipts from the Administrative Office of the Courts used to offset the county's required payments on its debt related to the courthouse.

Jail Construction Fund - The primary purpose of this fund is to account for the proceeds of the general obligation bonds issued to finance the construction of the Knox County Detention Center.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

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

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

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

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

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

E. Knox County Elected Officials

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

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

F. Deposits

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits (Continued)

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

G. Long-term Obligations

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

H. Related Obligations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on this criteria, the following are considered related organizations of the Knox County Fiscal Court:

East Knox County Water District
 Artemus Fire District

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

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

Note 3. Transfers

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

	General Fund	Occupational License Fund	Total Transfers In
General Fund	\$	\$ 2,133,970	\$ 2,133,970
Road Fund	150,000		150,000
Jail Fund	2,075,000		2,075,000
911 Fund	220,000		220,000
Hospital Sinking Fund	58,366		58,366
Health Insurance Escrow Fund	20,000		20,000
Total Transfers Out	\$ 2,523,366	\$ 2,133,970	\$ 4,657,336

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. Agency Trust Funds

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

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2019, was \$19,387.

Note 5. Long-term Debt

A. Other Debt

1. General Obligation Refunding Bonds, Series 2005, Non-Refunded Portion

On December 1, 2005, the Knox County Fiscal Court issued \$4,250,000 of General Obligation Refunding Bonds for the Knox County Hospital. On December 28, 2006, the fiscal court issued General Obligation Refunding Bonds, Series 2006 which defeased the remained of the outstanding Series 2005 bonds at that date with the exception of \$985,000. The non-refunded portion of the Series 2005 Bonds has interest rates from 2.8% through 4.5%. The final maturity of the Series 2005 Bonds is December 1, 2035. The bonds outstanding at June 30, 2019 totaled \$740,000. Future principal and interest requirements are:

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

Note 5. Long-term Debt (Continued)

A. Other Debt (Continued)

1. General Obligation Refunding Bonds, Series 2005, Non-Refunded Portion (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 30,000	\$ 32,118
2021	30,000	30,865
2022	35,000	29,484
2023	35,000	27,979
2024	40,000	26,347
2025-2029	195,000	107,017
2030-2034	260,000	56,688
2035-2036	115,000	5,288
Totals	<u>\$ 740,000</u>	<u>\$ 315,786</u>

2. First Mortgage Revenue Refunding Bonds, Series 2010

On February 17, 2010, the Knox County Public Properties Corporation issued \$1,635,000 of First Mortgage Refunding Revenue Bonds to pay off the 1997 Series Bonds which were originally issued for courthouse improvements and construction of the courthouse annex. The 2010 series bonds were issued at various interest rates from 1% through 3.625%. The final maturity date of the 2010 series bonds is September 1, 2021. Total bonds outstanding as of June 30, 2019, were \$500,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 160,000	\$ 14,922
2021	170,000	9,223
2022	170,000	3,081
Totals	<u>\$ 500,000</u>	<u>\$ 27,226</u>

3. Hospital - General Obligation Public Project Bond, Series 2017

On November 30, 2017, the Knox County Fiscal Court issued General Obligation Public Project Bond, Series 2017, in the amount of \$5,000,000 at an interest rate of 2.60% with interest to be paid semi-annually on June 20 and December 20 and principal payments made every December 20, in order to refinance the General Obligation Bond Anticipation Refunding Note Taxable, Series 2016. The bonds have a maturity date of February 1, 2028. Total bonds outstanding as of June 30, 2019, were \$4,560,000. Future principal and interest requirements are:

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

Note 5. Long-term Debt (Continued)

A. Other Debt (Continued)

3. Hospital - General Obligation Public Project Bond, Series 2017 (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 450,000	\$ 128,000
2021	465,000	115,437
2022	475,000	102,525
2023	490,000	89,275
2024	505,000	75,613
2025-2029	<u>2,175,000</u>	<u>148,619</u>
Totals	<u>\$ 4,560,000</u>	<u>\$ 659,469</u>

4. General Obligation Bonds, Detention Facility Project, Series 2017

On November 16, 2017, the Knox County Fiscal Court issued General Obligation Bonds, Detention Facility Project, Series 2017 in the amount of \$16,800,000 at various interest rates from 3.5% to 5.0% with interest to be paid semi-annually on April 1 and October 1 and principal payments to be made every October 1, in order to finance the construction of the new jail. The bonds have a maturity date of October 1, 2047. Total bonds outstanding as of June 30, 2019, were \$16,800,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 225,000	\$ 712,506
2021	290,000	700,194
2022	305,000	685,319
2023	325,000	669,569
2024	340,000	652,944
2025-2029	1,975,000	2,985,345
2030-2034	2,540,000	2,423,720
2035-2039	3,220,000	1,746,706
2040-2044	3,890,000	1,072,692
2045-2048	<u>3,690,000</u>	<u>280,589</u>
Totals	<u>\$ 16,800,000</u>	<u>\$ 11,929,584</u>

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

Note 5. Long-term Debt (Continued)

B. Changes In Long-term Debt

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

	Beginning Balance	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 22,565,000	\$ 465,000	\$ 22,100,000	\$ 705,000
Revenue Bonds	655,000	155,000	500,000	160,000
Total Long-term Debt	<u>\$ 23,220,000</u>	<u>\$ 620,000</u>	<u>\$ 22,600,000</u>	<u>\$ 865,000</u>

Note 6. Employee Retirement System

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

The county's contribution for FY 2017 was \$362,465, FY 2018 was \$385,121, and FY 2019 was \$442,130.

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

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

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

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

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
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.

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

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

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

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

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

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

C. Cost of Living Adjustments - Tier 1

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

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

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

E. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 7. Deferred Compensation

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

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

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

Note 7. Deferred Compensation (Continued)

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 501 High Street, 2nd Floor, Frankfort, KY 40601, or by telephone at (502) 573-7925.

Note 8. Health Reimbursement Account

The Knox County Fiscal Court established a health reimbursement account during June 2018 to provide employees an additional health benefit. The county has contracted with Anthem Blue Cross and Blue Shield to administer the plan. The plan provides a benefit of \$500 for a single plan or \$1,000 for a family plan to reimburse the employee for certain deductibles and coinsurance amounts for qualified medical expenses. The activities for the health reimbursement account are accounted for in the health insurance escrow fund.

Note 9. Insurance

For the fiscal year ended June 30, 2019, the Knox County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Related Party Transactions

During the fiscal year ended June 30, 2019, the Knox Fiscal Court paid a total of \$90,279 to a business which is owned by the former county judge/executive's uncle.

Note 11. Prior Period Adjustments

The beginning balance reported on the Statement of Receipts, Disbursements, and Changes in Fund Balances – Regulatory Basis for the general fund, 911 fund, and jail commissary fund have been restated due to prior year voided checks.

General Fund:

Ending Cash Balance Prior Year	\$ 2,300,927
Add: Prior Year Voided Checks	125
Ending Cash Balance Prior Year (Adjusted)	<u>2,301,052</u>

911 Fund:

Ending Cash Balance Prior Year	\$ 62,990
Add: Prior Year Voided Checks	118
Ending Cash Balance Prior Year (Adjusted)	<u>\$ 63,108</u>

Jail Commissary Fund:

Ending Cash Balance Prior Year	\$ 25,092
Add: Prior Year Voided Checks	2,778
Ending Cash Balance Prior Year (Adjusted)	<u>\$ 27,870</u>

BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

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KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,666,900	\$ 1,666,900	\$ 1,600,782	\$ (66,118)
Excess Fees	235,000	235,000	258,509	23,509
Licenses and Permits	130,000	130,000	135,735	5,735
Intergovernmental	327,600	327,600	288,049	(39,551)
Charges for Services	11,500	11,500	10,490	(1,010)
Miscellaneous	45,000	45,000	197,774	152,774
Interest	6,000	6,000	14,920	8,920
Total Receipts	<u>2,422,000</u>	<u>2,422,000</u>	<u>2,506,259</u>	<u>84,259</u>
DISBURSEMENTS				
General Government	1,397,100	1,644,697	1,551,350	93,347
Protection to Persons and Property	56,500	58,700	56,334	2,366
General Health and Sanitation	232,000	271,810	217,111	54,699
Social Services		17,000	32,597	(15,597)
Recreation and Culture	4,000	4,550	4,532	18
Administration	1,853,925	1,529,668	887,798	641,870
Total Disbursements	<u>3,543,525</u>	<u>3,526,425</u>	<u>2,749,722</u>	<u>776,703</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,121,525)</u>	<u>(1,104,425)</u>	<u>(243,463)</u>	<u>860,962</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,215,690	2,215,690	2,133,970	(81,720)
Transfers To Other Funds	<u>(3,109,441)</u>	<u>(3,109,441)</u>	<u>(2,523,366)</u>	<u>586,075</u>
Total Other Adjustments to Cash (Uses)	<u>(893,751)</u>	<u>(893,751)</u>	<u>(389,396)</u>	<u>504,355</u>
Net Change in Fund Balance	(2,015,276)	(1,998,176)	(632,859)	1,365,317
Fund Balance - Beginning (Restated)	<u>2,015,276</u>	<u>2,015,276</u>	<u>2,301,052</u>	<u>285,776</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 17,100</u>	<u>\$ 1,668,193</u>	<u>\$ 1,651,093</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,212,450	\$ 2,212,450	\$ 2,082,895	\$ (129,555)
Miscellaneous	276,000	276,000	295,319	19,319
Interest	1,000	1,000	3,022	2,022
Total Receipts	<u>2,489,450</u>	<u>2,489,450</u>	<u>2,381,236</u>	<u>(108,214)</u>
DISBURSEMENTS				
Roads	2,484,500	2,811,000	2,224,265	586,735
Administration	831,307	504,807	448,604	56,203
Total Disbursements	<u>3,315,807</u>	<u>3,315,807</u>	<u>2,672,869</u>	<u>642,938</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(826,357)</u>	<u>(826,357)</u>	<u>(291,633)</u>	<u>534,724</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	300,000	300,000	150,000	(150,000)
Total Other Adjustments to Cash (Uses)	<u>300,000</u>	<u>300,000</u>	<u>150,000</u>	<u>(150,000)</u>
Net Change in Fund Balance	(526,357)	(526,357)	(141,633)	384,724
Fund Balance - Beginning	<u>526,357</u>	<u>526,357</u>	<u>449,948</u>	<u>(76,409)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 308,315</u>	<u>\$ 308,315</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 269,000	\$ 269,000	\$ 292,776	\$ 23,776
Charges for Services	46,500	82,281	90,635	8,354
Miscellaneous	17,000	17,000	16,291	(709)
Interest	500	500	1,034	534
Total Receipts	<u>333,000</u>	<u>368,781</u>	<u>400,736</u>	<u>31,955</u>
DISBURSEMENTS				
Protection to Persons and Property	2,212,000	2,241,544	2,173,740	67,804
Capital Projects		239,300	239,248	52
Administration	625,000	792,721	407,914	384,807
Total Disbursements	<u>2,837,000</u>	<u>3,273,565</u>	<u>2,820,902</u>	<u>452,663</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,504,000)</u>	<u>(2,904,784)</u>	<u>(2,420,166)</u>	<u>484,618</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,480,372	2,480,372	2,075,000	(405,372)
Total Other Adjustments to Cash (Uses)	<u>2,480,372</u>	<u>2,480,372</u>	<u>2,075,000</u>	<u>(405,372)</u>
Net Change in Fund Balance	(23,628)	(424,412)	(345,166)	79,246
Fund Balance - Beginning	<u>23,628</u>	<u>424,412</u>	<u>424,412</u>	<u></u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 79,246</u>	<u>\$ 79,246</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 481,333	\$ 481,333	\$ 388,415	\$ (92,918)
Interest	1,000	1,000	6,965	5,965
Total Receipts	<u>482,333</u>	<u>482,333</u>	<u>395,380</u>	<u>(86,953)</u>
DISBURSEMENTS				
Road Facilities		500,000	133,938	366,062
Capital Projects	100,000	100,000	84,752	15,248
Administration	1,231,933	731,933		731,933
Total Disbursements	<u>1,331,933</u>	<u>1,331,933</u>	<u>218,690</u>	<u>1,113,243</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(849,600)</u>	<u>(849,600)</u>	<u>176,690</u>	<u>1,026,290</u>
Net Change in Fund Balance	(849,600)	(849,600)	176,690	1,026,290
Fund Balance - Beginning	<u>849,600</u>	<u>849,600</u>	<u>739,854</u>	<u>(109,746)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 916,544</u>	<u>\$ 916,544</u>

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

	911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 300,000	\$ 300,000	\$ 286,942	\$ (13,058)
Intergovernmental	100,000	100,000	100,000	
Miscellaneous	500	500	2,329	1,829
Interest	500	500	558	58
Total Receipts	<u>401,000</u>	<u>401,000</u>	<u>389,829</u>	<u>(11,171)</u>
DISBURSEMENTS				
Protection to Persons and Property	435,500	524,600	449,438	75,162
Administration	291,000	201,900	158,158	43,742
Total Disbursements	<u>726,500</u>	<u>726,500</u>	<u>607,596</u>	<u>118,904</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(325,500)</u>	<u>(325,500)</u>	<u>(217,767)</u>	<u>107,733</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	269,762	269,762	220,000	(49,762)
Total Other Adjustments to Cash (Uses)	<u>269,762</u>	<u>269,762</u>	<u>220,000</u>	<u>(49,762)</u>
Net Change in Fund Balance	(55,738)	(55,738)	2,233	57,971
Fund Balance - Beginning (Restated)	<u>55,738</u>	<u>55,738</u>	<u>63,108</u>	<u>7,370</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 65,341</u>	<u>\$ 65,341</u>

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

OCCUPATIONAL LICENSE FEE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,800,000	\$ 2,800,000	\$ 2,863,053	\$ 63,053
Interest	1,000	1,000	1,303	303
Total Receipts	<u>2,801,000</u>	<u>2,801,000</u>	<u>2,864,356</u>	<u>63,356</u>
DISBURSEMENTS				
General Government	<u>738,565</u>	<u>738,565</u>	<u>722,792</u>	<u>15,773</u>
Total Disbursements	<u>738,565</u>	<u>738,565</u>	<u>722,792</u>	<u>15,773</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>2,062,435</u>	<u>2,062,435</u>	<u>2,141,564</u>	<u>79,129</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(2,215,690)</u>	<u>(2,215,690)</u>	<u>(2,133,970)</u>	<u>81,720</u>
Total Other Adjustments to Cash (Uses)	<u>(2,215,690)</u>	<u>(2,215,690)</u>	<u>(2,133,970)</u>	<u>81,720</u>
Net Change in Fund Balance	(153,255)	(153,255)	7,594	160,849
Fund Balance - Beginning	<u>153,255</u>	<u>153,255</u>	<u>19,770</u>	<u>(133,485)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 27,364</u>	<u>\$ 27,364</u>

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

SOUTH KENTUCKY REGIONAL BUSINESS PARK FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 250,000	\$ 250,000	\$ 278,215	\$ 28,215
Interest	500	500	819	319
Total Receipts	<u>250,500</u>	<u>250,500</u>	<u>279,034</u>	<u>28,534</u>
DISBURSEMENTS				
General Government	250,000	267,000	266,378	622
Administration	198,729	181,729		181,729
Total Disbursements	<u>448,729</u>	<u>448,729</u>	<u>266,378</u>	<u>182,351</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(198,229)</u>	<u>(198,229)</u>	<u>12,656</u>	<u>210,885</u>
Net Change in Fund Balance	(198,229)	(198,229)	12,656	210,885
Fund Balance - Beginning	<u>198,229</u>	<u>198,229</u>	<u>197,296</u>	<u>(933)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 209,952</u>	<u>\$ 209,952</u>

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

HOSPITAL SINKING FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$	\$ 580,225	\$ 580,225
Total Receipts			580,225	580,225
DISBURSEMENTS				
Debt Service	59,307	59,307	638,505	(579,198)
Total Disbursements	59,307	59,307	638,505	(579,198)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(59,307)	(59,307)	(58,280)	1,027
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	59,307	59,307	58,366	(941)
Total Other Adjustments to Cash (Uses)	59,307	59,307	58,366	(941)
Net Change in Fund Balance			86	86
Fund Balance - Beginning			124	124
Fund Balance - Ending	\$ 0	\$ 0	\$ 210	\$ 210

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

HEALTH INSURANCE ESCROW FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$	\$	\$ 36	\$ 36
Total Receipts			36	36
DISBURSEMENTS				
Administration		17,100	16,724	376
Total Disbursements		17,100	16,724	376
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(17,100)	(16,688)	412
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			20,000	20,000
Total Other Adjustments to Cash (Uses)			20,000	20,000
Net Change in Fund Balance		(17,100)	3,312	20,412
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$ 3,312	\$ 20,412

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

	LEPC FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$	\$	\$
Total Receipts				
DISBURSEMENTS				
Protection to Persons and Property	1,000	1,000		1,000
Administration	966	966		966
Total Disbursements	1,966	1,966		1,966
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,966)	(1,966)		1,966
Net Change in Fund Balance	(1,966)	(1,966)		1,966
Fund Balance - Beginning	1,966	1,966	1,966	
Fund Balance - Ending	\$	\$	\$ 1,966	\$ 1,966

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

June 30, 2019

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

General fund social services exceeded budgeted appropriations by \$15,597 and the hospital sinking fund debt service exceeded budgeted appropriations by \$579,198.

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

For The Year Ended June 30, 2019

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

For The Year Ended June 30, 2019

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land and Land Improvements	\$ 1,959,145	\$	\$	\$ 1,959,145
Construction in Progress	4,318,347	8,148,835		12,467,182
Buildings	8,456,800			8,456,800
Furniture and Equipment	964,953	429,725	126,679	1,267,999
Vehicles	2,211,781			2,211,781
Infrastructure	16,875,181			16,875,181
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 34,786,207</u>	<u>\$ 8,578,560</u>	<u>\$ 126,679</u>	<u>\$ 43,238,088</u>

KNOX COUNTY
NOTES TO OTHER INFORMATION - REGULATORY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2019

Note 1. Capital Assets

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

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-10
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael N. Mitchell, Knox County Judge/Executive
The Honorable J.M. Hall, Former Knox County Judge/Executive
Members of the Knox 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 Knox County Fiscal Court for the fiscal year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the Knox County Fiscal Court's financial statement and have issued our report thereon dated February 27, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Knox 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 Knox County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Knox County Fiscal Court's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-002 and 2019-004 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Knox County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-003, and 2019-004.

Views of Responsible Officials and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

February 27, 2020

**KNOX COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

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**KNOX COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 The Knox County Fiscal Court Did Not Provide The Same Level Of Health Insurance Benefits To All County Employees

This is a repeat finding and was included in the prior year audit report as finding 2018-001. The Knox County Fiscal Court employees are not receiving the same level of health insurance benefits. Elected officials are receiving family health insurance coverage paid for by the county, while non-elected employees only receive single health insurance coverage paid for by the county. The discrepancy in monthly expense between family health insurance coverage and single health insurance coverage is \$1,644 per month, per employee.

The Knox County Fiscal Court believes they can separate elected officials and county employees. According to the County Administrative Code, "The County pays the premium for all individual health insurance policies offered by the county; except, however, the county will pay the premium for family health insurance plans for all elected county officials." Due to differing levels of health insurance coverage being provided to county employees' discrimination exists; which can affect employee morale and the overall control environment. Additionally, county funds are being spent for the personal benefit of select employees that could have been expended on other items to benefit the entire county.

OAG 94-15 states, "The basic statute providing for governmentally funded health coverage (KRS 79.080) for public employees does not provide for one level of coverage for officers, and another level for employees. Accordingly, we believe such differing coverage would not be lawful as not authorized by statute."

We recommend the Knox County Fiscal Court discuss the discrimination of health insurance coverage between elected and non-elected county employees with the Knox County Attorney, and follow the advice as expressed in OAG 94-15.

County Judge/Executive's Response: This has been cited in the past and we are taking this under advisement.

2019-002 The Jail Commissary Lacks Adequate Segregation of Duties Over Receipts And Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2018-002. The jail has a lack of segregation of duties over receipts and disbursements. The bookkeeper prepares deposits and posts these deposits to the receipt's ledger. The bookkeeper also prepares, and signs checks and posts these disbursements to the disbursement's ledger. By allowing the same employee to perform all functions relating to receipts and disbursements, the risk increases that errors or fraud could occur without being detected. The jail has a small staff size available to segregate duties in the financial processes. Without proper segregation of duties, inaccurate financial reporting and fraud can occur. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business.

To adequately protect employees in the normal course of business, and to prevent inaccurate financial reporting and misappropriation of assets, we recommend the jailer implement strong oversight in these areas, either by an employee independent of those functions or by the jailer, such as:

- The jailer should periodically compare bank deposits to the daily checkout sheet and receipts ledger. Any differences should be reconciled. The jailer should document this by initialing the bank deposit, the daily checkout sheet, and the receipts ledger.
- The jailer should review supporting documentation for all disbursements made. The jailer should also compare disbursements written to the disbursement's ledger. The jailer should document this by initialing the supporting documentation and the disbursements ledger.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
 (Continued)

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

Jailer's Response: We will attempt to implement controls over all transactions.

2019-003 The Knox County Fiscal Court Did Not Budget All County Funds

This is a repeat finding and was included in the prior year audit report as finding 2018-003. The fiscal court did not budget debt payments related to the Taxable General Obligation Bond Anticipation Refunding Notes, Series 2016. The payment of the debt by the Knox County Hospital Taxing District was recorded as a receipt and disbursement in the General fund. The activity for the debt payment should have been budgeted and recorded in the Hospital Sinking fund.

The fiscal court was under the impression since the debt is paid directly by the Knox County Hospital Taxing District, they did not have to budget for the debt. The disbursements exceeded budgeted appropriations by \$579,198 after the recording of the debt payment.

According to KRS 68.240(1), "[t]he county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year." All county funds are required to be budgeted and reported in the quarterly financial reports according to the *County Budget Preparation and State Local Officer Policy Manual*, issued by the Department for Local Government (DLG). In addition, all funds should be recorded in receipts and appropriation ledgers. It may be necessary to amend the budget to reflect the receipt and expenditure of funds received if item was not part of the original budget.

We recommend the fiscal court ensure all funds are properly budgeted or prepare budget amendments if necessary. We recommend the payment of the debt by Knox County Hospital Taxing District be recorded as a receipt (contribution from hospital - miscellaneous revenue) and disbursement (debt service) in the hospital sinking fund.

County Judge/Executive's Response: We agree and will implement corrective measures to prevent this from reoccurring.

2019-004 The Knox County Fiscal Court Did Not Have Internal Controls Over Disbursements

Internal controls over disbursements were not operating as intended. Based on items tested, disbursements were not paid timely, supporting documentation was not maintained, disbursements exceeded budgeted appropriations for social services in the general fund, and proper procedures were not followed.

This control deficiency occurred due to a lack of monitoring of controls which can diminish the effectiveness of the controls put in place over disbursements by the fiscal court. As a result, the following exceptions were noted:

- Two invoices for asphalt totaling \$356,455 were paid without any supporting documentation or haul tickets.
- Purchase orders were not prepared for 27 out of 74 invoices tested. Items could have been ordered or services rendered without prior approval to ensure adequate funds were available in each account.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-004 The Knox County Fiscal Court Did Not Have Internal Controls Over Disbursements (Continued)

- Credit card payments during the month of January 2019 included \$40 in late fees.
- Invoice pricing for radio equipment did not agree to the state master agreement.
- One invoice purchased from a vendor other than the approved bidder was overcharged \$170.
- Disbursements totaling \$15,597 exceeded budgeted appropriations for social services in the general fund.

Proper internal controls over disbursements are important to ensure purchase orders are created with sufficient funds available, are approved by fiscal court, include proper supporting documentation, and are paid in a timely manner. Strong internal controls over financial reporting are also vital in ensuring the fiscal court's actual expenditures do not exceed the budgeted expenditures in each fund. Furthermore; the fiscal court should maintain proper documentation of state contract listings to ensure they are being billed appropriately.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, requires all disbursements to be accompanied by a purchase order and sufficiently documented.

KRS 65.140(2) states, “[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor.”

KRS 68.300 states, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable.”

We recommend fiscal court implement proper internal controls over disbursements and ensure they are operating effectively. We also recommend the fiscal court comply with the State and Local Finance Officer by creating a purchase order for all disbursements and ensure that all disbursements are within budgeted appropriations as required by statute.

County Judge/Executive's Response:

- *As of January 2019, asphalt invoices have been paid with proof of supporting documentation only.*
- *This relates to approved standing orders. We are now issuing purchase orders for all standing orders.*
- *This relates to Jailers credit card; Jailer had failed to provide proper documentation on time. Jailer has been notified to produce receipts on time to prevent this from reoccurring.*
- *Equipment purchased was thru the state master agreement and was improperly coded on the invoice. This will not reoccur. We will have more than one person review documentation.*
- *This was a clerical error; the vendor has since credited \$170.00 error. We have implemented over site on monthly invoices.*
- *Victims Advocate was added during the budget cycle. This has now been corrected.*

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

KNOX COUNTY FISCAL COURT

For The Year Ended June 30, 2019

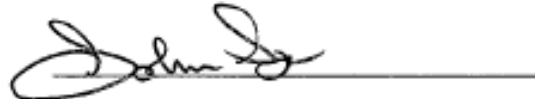
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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
COUNTY FISCAL COURT

For The Year Ended June 30, 2019

The Knox 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