

**REPORT OF THE AUDIT OF THE
NICHOLAS 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 Steve Hamilton, Nicholas County Judge/Executive

The Honorable Roscoe Higginbotham, Former Nicholas County Judge/Executive

Members of the Nicholas 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 Nicholas County Fiscal Court, for the year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the Nicholas 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 Nicholas 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 Nicholas 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 Nicholas County Fiscal Court as of June 30, 2019, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Nicholas 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 and Other Information (Continued)

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2020, on our consideration of the Nicholas 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 Nicholas County Fiscal Court's internal control over financial reporting and compliance.

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

2019-001 The Fiscal Court Did Not Record The Purchase Of Equipment

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 19, 2020

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

Mike Pryor	County Judge/Executive (7/1/2018 through 12/10/2018)
Jeff Randolph	Interim County Judge/Executive (12/11/2018 through 1/7/2019)
Roscoe Higginbotham	County Judge/Executive (1/8/2019 through 6/30/2019)
Jeff Randolph	Magistrate
Mike Webb	Magistrate
Steve Hamilton	Magistrate
Matt Hughes	Magistrate
Kenny Holbrook	Magistrate

Other Elected Officials:

Dawn Letcher	County Attorney
Darren Robinson	Jailer
Martha Moss	County Clerk
Sandye Watkins	Circuit Court Clerk
Jeff Sidles	Sheriff
Michelle McDonald	Property Valuation Administrator
Kevin Hatchett	Coroner (7/1/2018 through 1/6/2019)
Emily Gaunce	Coroner (1/7/2019 through 6/30/2019)

Appointed Personnel:

Julie Watson	County Treasurer
Dana Price	Occupational Tax Administrator/Finance Officer (7/1/2018 through 1/10/2019)
Tammy McConnell	Administrative Assistant (2/18/2019 through 6/30/2019)

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

For The Year Ended June 30, 2019

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

For The Year Ended June 30, 2019

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 773,723	\$	\$
Excess Fees	47,540		
Licenses and Permits	6,710		
Intergovernmental	112,369	1,010,528	73,228
Charges for Services	389,935	3,766	16,333
Miscellaneous	420,399	105,285	251
Interest	4,216	11,382	419
Total Receipts	<u>1,754,892</u>	<u>1,130,961</u>	<u>90,231</u>
DISBURSEMENTS			
General Government	705,897	18,000	
Protection to Persons and Property	518,348		200,401
General Health and Sanitation	27,554		
Social Services	41,641		
Recreation and Culture	15,000		
Roads		630,558	
Debt Service	42,173	6,228	
Capital Projects			
Administration	393,894	313,989	15,612
Total Disbursements	<u>1,744,507</u>	<u>968,775</u>	<u>216,013</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>10,385</u>	<u>162,186</u>	<u>(125,782)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds	5,500	35,000	
Gain On Sale Of Investments			
Transfers From Other Funds	154,582		130,200
Transfers To Other Funds	(186,200)	(134,371)	
Total Other Adjustments to Cash (Uses)	<u>(26,118)</u>	<u>(99,371)</u>	<u>130,200</u>
Net Change in Fund Balance	(15,733)	62,815	4,418
Fund Balance - Beginning (Restated)	<u>160,406</u>	<u>133,537</u>	<u>313</u>
Fund Balance - Ending	<u>\$ 144,673</u>	<u>\$ 196,352</u>	<u>\$ 4,731</u>
Composition of Fund Balance			
Bank Balance	\$ 116,006	\$ 196,898	\$ 4,812
Less: Outstanding Checks	(262)	(546)	(81)
Certificates of Deposit	28,929		
Investments			
Fund Balance - Ending	<u>\$ 144,673</u>	<u>\$ 196,352</u>	<u>\$ 4,731</u>

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

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

<u>Budgeted Funds</u>				<u>Unbudgeted Fund</u>
<u>Community Development Block Grant Fund</u>	<u>Landfill Fund</u>	<u>Phase I Fund</u>	<u>Mathers Fund</u>	<u>Public Properties Corporation Fund</u>
\$	\$	\$	\$	\$
	82,750			
	3,899			
	241		13,076	15,727
	<u>86,890</u>		<u>13,076</u>	<u>15,727</u>
1,042	173			
	128,314			
			79,500	
				34,307
				491,143
	12,209	36,591	2,097	4,003
<u>1,042</u>	<u>140,696</u>	<u>36,591</u>	<u>81,597</u>	<u>529,453</u>
<u>(1,042)</u>	<u>(53,806)</u>	<u>(36,591)</u>	<u>(68,521)</u>	<u>(513,726)</u>
	56,000		136,675	
	<u>56,000</u>		<u>136,675</u>	
(1,042)	2,194	(36,591)	68,154	(513,726)
<u>1,042</u>	<u>4,376</u>	<u>36,591</u>	<u>302,600</u>	<u>1,092,590</u>
<u>\$ 0</u>	<u>\$ 6,570</u>	<u>\$ 0</u>	<u>\$ 370,754</u>	<u>\$ 578,864</u>
\$	\$ 6,570	\$	\$ 370,754	\$ 578,864
<u>\$ 0</u>	<u>\$ 6,570</u>	<u>\$ 0</u>	<u>\$ 370,754</u>	<u>\$ 578,864</u>

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

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

	<u>Private Purpose Trust Funds</u>		
	<u>Knox Hospital Trust Fund</u>	<u>Mathers Educational Trust Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 773,723
Excess Fees			47,540
Licenses and Permits			6,710
Intergovernmental			1,196,125
Charges for Services			492,784
Miscellaneous			529,834
Interest	12,306	77,196	134,563
Total Receipts	<u>12,306</u>	<u>77,196</u>	<u>3,181,279</u>
DISBURSEMENTS			
General Government			723,897
Protection to Persons and Property			719,964
General Health and Sanitation			155,868
Social Services			121,141
Recreation and Culture			15,000
Roads			630,558
Debt Service			82,708
Capital Projects			491,143
Administration	1,830	16,787	797,012
Total Disbursements	<u>1,830</u>	<u>16,787</u>	<u>3,737,291</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>10,476</u>	<u>60,409</u>	<u>(556,012)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds			40,500
Gain On Sale Of Investments	9,125	298,883	308,008
Transfers From Other Funds			477,457
Transfers To Other Funds	(20,211)	(136,675)	(477,457)
Total Other Adjustments to Cash (Uses)	<u>(11,086)</u>	<u>162,208</u>	<u>348,508</u>
Net Change in Fund Balance	(610)	222,617	(207,504)
Fund Balance - Beginning (Restated)	<u>346,728</u>	<u>2,392,481</u>	<u>4,470,664</u>
Fund Balance - Ending	<u>\$ 346,118</u>	<u>\$ 2,615,098</u>	<u>\$ 4,263,160</u>
Composition of Fund Balance			
Bank Balance	\$ 5,207	\$ 34,024	\$ 1,313,135
Less: Outstanding Checks			(889)
Certificates of Deposit			28,929
Investments	<u>340,911</u>	<u>2,581,074</u>	<u>2,921,985</u>
Fund Balance - Ending	<u>\$ 346,118</u>	<u>\$ 2,615,098</u>	<u>\$ 4,263,160</u>

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

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TO THE FINANCIAL STATEMENT**

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**NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2019

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

NICHOLAS 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)

Community Development Block Grant 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.

Landfill Fund - The primary purpose of this fund is to account for trash collections and solid waste transfers. The primary source of receipts for this fund are payments for trash collections, recycling income, and transfers from the general fund.

Phase I Fund - The primary purpose of this fund is to account for the distribution of subsidy resources from the state for qualifying farmers of tobacco funds.

Mathers Fund - The primary purpose of this fund is to account for the distribution requirements of the Mathers Educational Trust Fund. The primary source of receipts for this fund is the income generated by the principal of the Mathers Educational Trust Fund. The Mathers Educational Trust Fund requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Unbudgeted Fund

The fiscal court reports the following unbudgeted fund:

Public Properties Corporation Fund - The primary purpose of this fund is to account for the financing and construction of major capital facilities. This fund handles financial activities associated with the Judicial Center construction.

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 public properties corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

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

Note 1. Summary of Significant Accounting Policies (Continued)

E. Nicholas County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Nicholas 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 Nicholas County Fiscal Court.

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

Note 2. Deposits and Investments

A. 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,

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

Note 2. Deposits and Investments (Continued)

A. Deposits (Continued)

(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.

B. Cash and Investments

As of June 30, 2019, the fiscal court had the following investments and maturities:

I. Cash

	<u>Cost</u>
Cash	\$ 1,312,246
Certificates of Deposit	28,929
Total Cash	<u>\$ 1,341,175</u>

II. Investments

	<u>Cost</u>
Common Stock	\$ 749,527
Mutual Funds	2,172,458
Total Investments	<u>\$ 2,921,985</u>

Custodial Credit Risk is the risk that, in the event of failure of the counterparty, the fiscal court will not be able to recover the value of its certificates of deposit, investments, or collateral securities that are in the possession of an outside party. The fiscal court's investment policy requires counterparties to provide sufficient collateral or other insurance if any investments or deposits exceed the insurance provided by Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). All certificates of deposit and investments must be held by the counterparty in the fiscal court's name. The fiscal court has \$28,929 of certificates of deposit and \$2,921,985 of investments in securities held by the counterparties' trust departments in the fiscal court's name. The counterparty maintains the \$28,929 of certificates of deposit at depository institutions insured by the FDIC and limits certificates of deposit at each depository institution to the \$250,000 FDIC coverage limit. In addition, the SIPC provides up to \$500,000 coverage for securities and cash (limit of \$250,000 for cash) per client and the counterparties maintain additional insurance coverage for loss of securities and cash above the coverage provided by FDIC and SIPC.

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

Note 2. Deposits and Investments (Continued)

B. Cash and Investments (Continued)

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The fiscal court is statutorily limited as to credit ratings, at the time of purchase. KRS 66.480 and the fiscal court's investment policy define the following items as permissible investments:

- 1) Obligations of the United States and of its agencies and instrumentalities.
- 2) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
- 3) Obligations of any corporation of the United States government.
- 4) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution having a physical presence in Kentucky which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240.
- 5) Uncollateralized certificates of deposit issued by any bank or savings and loan institution having a physical presence in Kentucky rated in one of the three highest categories by a competent rating agency.
- 6) Bankers' acceptances for banks rated in one of the three highest categories by a competent rating agency.
- 7) Commercial paper rated in the highest category by a competent rating agency.
- 8) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities.
- 9) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one of the three highest categories by a competent rating agency.
- 10) Shares of mutual funds and exchange traded funds, each of which shall have the following characteristics:
 - a) The mutual funds shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended.
 - b) The management company of the investment company shall have been in operation for at least five years.
 - c) All of the securities in the mutual fund shall be eligible investments pursuant to this section.

The fiscal court is limited to investing no more than 20 percent in categories 5, 6, 7, 9, and 10 above per state statute and the fiscal court's investment policy. As of June 30, 2019, the fiscal court has investments of less than 20 percent in these categories.

The fiscal court's investments were not rated as of June 30, 2019.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the fiscal court's investment in a single issuer. U.S. Government securities and investments in mutual funds are excluded from this risk. The fiscal court does not have 5 percent or more of the fiscal court's investments invested in any single security.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The fiscal court's policy provides that, to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. See table above for investments listed by type and duration.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The fiscal court's policy historically has been to invest only in securities in U.S. denominations.

NICHOLAS 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	Road Fund	Knox Hospital Trust Fund	Mathers Educational Trust Fund	Total Transfers In
General Fund	\$	\$ 134,371	\$ 20,211	\$	\$ 154,582
Jail Fund	130,200				130,200
Landfill Fund	56,000				56,000
Mathers Fund				136,675	136,675
Total Transfers Out	<u>\$ 186,200</u>	<u>\$ 134,371</u>	<u>\$ 20,211</u>	<u>\$ 136,675</u>	<u>\$ 477,457</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. Private Purpose Trust Funds

Private-purpose trust funds are used to report all trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

The fiscal court has the following private purpose trust funds:

Knox Hospital Trust Fund - This fund was established to promote the general health and welfare of the people of Nicholas County, especially for the employment of a health nurse. The trust fund reports resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the county's programs. The trust fund is maintained by a third-party trustee who determines the investment portfolio of the fund and accounts for the investment earnings. The balance in the Knox Hospital Trust Fund as of June 30, 2019, was \$346,118.

Mathers Educational Trust Fund - This fund was established for educational expenses of Nicholas County school age children. The fiscal court awards the income generated from the principal of the trust based upon applications received, less administrative costs. The trust fund is maintained by a third-party trustee who determines the investment portfolio of the fund and accounts for the investment earnings. The balance in the Mathers Educational Trust Fund as of June 30, 2019, was \$2,615,098.

Note 5. Long-term Debt

A. Direct Borrowings and Direct Placements

1. Financing Obligation - Building Improvement

On May 22, 2013, the Kentucky Association of Counties Finance Corporation issued Program Revenue Bonds, Series 2013, in the amount of \$135,000 for the Nicholas County Fiscal Court to finance a building improvement for the hospital. Monthly payments of principal, fixed interest, and associated fees will end January 20, 2028. The obligation of the lessee created by the lease shall be a full general obligation of the lessee and, for the prompt payment of the lease payments, the full faith, credit and revenue of the lessee are pledged.

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

Note 5. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

1. Financing Obligation - Building Improvement (Continued)

In case of default, the lessor may, without any further demand or notice, take one or any combination of the following remedial steps: enforce the pledge set forth so that during the remaining lease term there is levied on all the taxable property in the lessee, in addition to all other taxes, without limitation as to the rate or amount, a direct tax annually in an amount sufficient to pay the lease rental payments when and as due; take legal title to, and sell or re-lease the project or any portion thereof; or take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the project under this lease and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the lessee of the applicable covenants and agreements under this lease and to recover damages for the breach thereof. The outstanding balance as of June 30, 2019, was \$85,833. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 10,000	\$ 2,839
2021	10,000	2,614
2022	10,000	2,378
2023	10,000	2,128
2024	10,000	1,870
2025-2028	<u>35,833</u>	<u>4,321</u>
Totals	<u>\$ 85,833</u>	<u>\$ 16,150</u>

2. Financing Obligation - Buildings and Equipment

On August 9, 2017, the Kentucky Association of Counties Finance Corporation issued Financing Program Revenue Bonds, 2017 First Series B, in the amount of \$140,000 for the Nicholas County Fiscal Court to finance building the fire department and park shelter and purchase of a mower. The bonds have interest rates from 2 percent to 4 percent with a retirement date of January 1, 2037. Semi-annual interest payments are due on July 1 and January 1 of each year. There are no moneys, sources of funds, securities or obligations that have been, or will be, pledged as collateral for the payment of principal of, premium, if any, or interest on the lease. In case of default, the lessor may, without any further demand or notice, take one or any combination of the following remedial steps: by appropriate court action, the remaining lease term there is levied on all the taxable property in the lessee, in addition to all other taxes, without limitation as to the rate or amount, a direct tax annually in an amount sufficient to pay the lease rental payments when and as due, take legal title to and sell or re-lease the project or any proportion thereof; take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the project under the lease. The lessee will remain liable for all covenants and obligations under this lease, and for all legal fees and other costs and expenses, including court costs awarded by a court of competent jurisdiction, incurred by the lessor with respect to the enforcement of any of the remedies under this lease. Annual principal amounts begin January 1, 2019. The outstanding principal balance as of June 30, 2019, was \$135,000. Future principal and interest payments are as follows:

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

Note 5. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

2. Financing Obligation - Buildings and Equipment (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 5,000	\$ 4,750
2021	5,000	4,537
2022	5,000	4,325
2023	5,000	4,112
2024	5,000	3,900
2025-2029	30,000	16,944
2030-2034	50,000	10,375
2035-2037	30,000	2,300
Totals	<u>\$ 135,000</u>	<u>\$ 51,243</u>

3. Financing Obligation - Sheriff's Vehicle

In June 2016, the Nicholas County Fiscal Court entered into a \$29,099 lease agreement for the purchase of a sheriff's vehicle. The agreement requires 48 monthly payments of \$671, beginning June 1, 2016, and ending May 1, 2020. There are no moneys, sources of funds, securities or obligations that have been, or will be, pledged as collateral for the payment of principal of, premium, if any, or interest on the lease. Upon the occurrence of an event of default, the lessor may, at its option, declare the settlement value due as to any or all vehicles, exercise all rights of a secured creditor under the Uniform Commercial Code, perform any obligation lessee has failed to perform, in which case lessee will reimburse lessor's related costs and expenses, and exercise any other rights available to lessor under law or equity. The lessee will pay lessor all costs and expenses, including repossession and court costs and attorneys' fees, lessor expends in enforcing its rights. All remedies are cumulative and may be exercised separately or together from time to time. No waiver by lessor of any default or remedy will be binding unless acknowledged by the lessor in writing. The lease balance as of June 30, 2019, was \$7,826. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 7,826	\$ 226
Totals	<u>\$ 7,826</u>	<u>\$ 226</u>

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

Note 5. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

4. Financing Obligation - Ambulance Equipment

In August 2016, the Nicholas County Fiscal Court entered into a \$77,194 lease agreement for the purchase of ambulance equipment. The agreement requires five annual payments of \$16,752 beginning August 2017 and ending August 2021. There are no moneys, sources of funds, securities or obligations that have been, or will be, pledged as collateral for the payment of principal of, premium, if any, or interest on the lease. Upon the occurrence of an event of default, the lessor may, without any further notice, exercise one or more of the following remedies as lessor in its sole discretion shall elect to terminate the agreement and all of lessee's rights as to any or all items of property, proceed by appropriate court action to personally, or by its agents, take possession from lessee of any or all items of property wherever found and remove such items of property free from all claims of any nature whatsoever by lessee and lessor may thereafter dispose of the property; provided, however, that any proceeds from the disposition of the property in excess of the sum required to pay to lessor an amount equal to the total unpaid principal component of lease payments under the property schedule, including principal component not otherwise due until future years, pay any other amounts then due under the agreement, and pay lessor's costs and expenses associated with the disposition of the property and the event of default including attorney's fees. The lease balance as of June 30, 2019, was \$47,582. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 15,427	\$ 1,493
2021	15,857	895
2022	16,298	454
Totals	<u>\$ 47,582</u>	<u>\$ 2,842</u>

5. Financing Obligation - Mower

On August 2, 2018, the Nicholas County Fiscal Court entered into a \$5,500 lease agreement for the purchase of a zero turn mower. The agreement requires 24 monthly payments of \$239 beginning September 20, 2018, and ending August 20, 2020. There are no moneys, sources of funds, securities or obligations that have been, or will be, pledged as collateral for the payment of principal of, premium, if any, or interest on the lease. Whenever any event of default has occurred, the lessor may, without any further demand or notice, take one of any combination of the following remedial steps: terminate the lease term and give notice to the lessee to vacate or surrender the equipment within 60 days from the date of such notice; exercise all rights and remedies of a secured party with respect to the equipment and may otherwise repossess and liquidate or realize or foreclose upon the equipment in a lawful manner; or sell or re-lease the equipment. The lease balance as of June 30, 2019, was \$3,271. Future principal and interest payments are as follows:

NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 5. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

5. Financing Obligation - Mower (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 2,795	\$ 79
2021	476	2
Totals	<u>\$ 3,271</u>	<u>\$ 81</u>

6. Financing Obligation - Truck and Snow Plow

On December 18, 2018, the Nicholas County Fiscal Court entered into a \$35,000 lease agreement for the purchase of a truck and snow plow. The agreement requires 36 monthly payments of \$1,038 beginning January 20, 2019, and ending December 20, 2021. There are no moneys, sources of funds, securities or obligations that have been, or will be, pledged as collateral for the payment of principal of, premium, if any, or interest on the lease. Whenever any event of default has occurred, the lessor may, without any further demand or notice, take one of any combination of the following remedial steps: terminate the lease term and give notice to the lessee to vacate or surrender the equipment within 60 days from the date of such notice; exercise all rights and remedies of a secured party with respect to the equipment and may otherwise repossess and liquidate or realize or foreclose upon the equipment in a lawful manner; or sell or re-lease the equipment. The lease balance as of June 30, 2019, was \$29,513. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 11,435	\$ 1,021
2021	11,925	531
2022	6,153	76
Totals	<u>\$ 29,513</u>	<u>\$ 1,628</u>

B. Other Debt

1. First Mortgage Revenue Bond Anticipation Note, Series 2018

On March 29, 2018, the Nicholas County, Kentucky, Public Properties Corporation issued first mortgage revenue bond anticipation notes in the amount of \$1,500,000. The proceeds of this issue were to finance the acquisition, construction, and equipping of a judicial center. The bonds have an interest rate 2.48 percent with a retirement date of March 1, 2020. Semi-annual interest payments are due on September 1 and March 1 of each year and the principal payment is due on March 1, 2020. Funding of the debt service is provided by a lease agreement with the Kentucky Administrative Office of the Courts.

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

Note 5. Long-term Debt (Continued)

B. Other Debt (Continued)

1. First Mortgage Revenue Bond Anticipation Note, Series 2018 (Continued)

In the event the AOC elects not to renew this lease at any time, or fails to pay the stipulated AOC rentals, or the county elects not to renew this lease at any time, or fails to pay the stipulated county proportionate share, then and in that event and upon any ensuing default in the payment of the principal or interest on the BANs, the indenture shall be enforced, which enforcement may, under the terms of the indenture. The county may at any time, by payment of all costs of action and charges of the bank, and by discharge of principal and interest on the BANs, receive unencumbered fee simple title to the project. In the event of any such enforcement by the bank from the proceeds of any operation of the project there shall first be paid all expenses incident to said enforcement, as provided in the indenture, and thereafter the BANs and interest then outstanding shall be paid and retired, and if there shall remain any excess after paying such expenses and the claims of owners, the entire amount of such excess shall be paid over in cash to the county. Notwithstanding the foregoing, an alternative remedy, the bank is entitled to enter upon the premises, evict the AOC and the county and relet the project under such terms and conditions as it deems prudent; the proceeds of such reletting to be applied to the payment of the principal and interest requirements on the BANs. The outstanding principal balance as of June 30, 2019, is \$1,500,000. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 1,500,000	\$ 37,200
Totals	<u>\$ 1,500,000</u>	<u>\$ 37,200</u>

C. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placement	\$ 313,072	\$ 40,500	\$ 44,547	\$ 309,025	\$ 52,483
Revenue Bonds	<u>1,500,000</u>			<u>1,500,000</u>	<u>1,500,000</u>
Total Long-term Debt	<u>\$ 1,813,072</u>	<u>\$ 40,500</u>	<u>\$ 44,547</u>	<u>\$ 1,809,025</u>	<u>\$ 1,552,483</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 \$163,764, FY 2018 was \$173,695, and FY 2019 was \$197,499.

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

Note 6. Employee Retirement System (Continued)

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.

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.

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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

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

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

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

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

C. 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.

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

Note 6. Employee Retirement System (Continued)

KRS Annual Financial Report and Proportionate Share Audit Report (Continued)

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

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

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 501 High Street, 2nd Floor, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2019, the Nicholas 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 9. Prior Period Adjustments

The beginning balance of the road fund was increased \$189 to account for a prior year voided check.

Note 10. Subsequent Events

On January 28, 2020, the Nicholas County, Kentucky Public Properties Corporation issued First Mortgage Revenue Bonds, Series 2020, in the amount of \$13,340,000 for the construction of a judicial center.

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

For The Year Ended June 30, 2019

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NICHOLAS 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	\$ 660,100	\$ 685,968	\$ 773,723	\$ 87,755
Excess Fees		47,540	47,540	
Licenses and Permits	6,200	6,600	6,710	110
Intergovernmental	85,700	93,598	112,369	18,771
Charges for Services	84,280	84,280	389,935	305,655
Miscellaneous	655,088	704,093	420,399	(283,694)
Interest	16,800	19,859	4,216	(15,643)
Total Receipts	<u>1,508,168</u>	<u>1,641,938</u>	<u>1,754,892</u>	<u>112,954</u>
DISBURSEMENTS				
General Government	528,742	714,880	705,897	8,983
Protection to Persons and Property	511,909	523,384	518,348	5,036
General Health and Sanitation	25,025	27,581	27,554	27
Social Services	42,715	44,356	41,641	2,715
Recreation and Culture	13,000	13,000	15,000	(2,000)
Debt Service	58,000	42,173	42,173	
Administration	427,200	395,204	393,894	1,310
Total Disbursements	<u>1,606,591</u>	<u>1,760,578</u>	<u>1,744,507</u>	<u>16,071</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(98,423)</u>	<u>(118,640)</u>	<u>10,385</u>	<u>129,025</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		5,500	5,500	
Transfers From Other Funds	134,371	134,371	154,582	20,211
Transfers To Other Funds	(201,336)	(201,336)	(186,200)	15,136
Total Other Adjustments to Cash (Uses)	<u>(66,965)</u>	<u>(61,465)</u>	<u>(26,118)</u>	<u>35,347</u>
Net Change in Fund Balance	(165,388)	(180,105)	(15,733)	164,372
Fund Balance - Beginning	<u>165,388</u>	<u>165,388</u>	<u>160,406</u>	<u>(4,982)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (14,717)</u>	<u>\$ 144,673</u>	<u>\$ 159,390</u>

NICHOLAS 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	\$ 906,511	\$ 1,016,831	\$ 1,010,528	\$ (6,303)
Charges for Services	600	2,100	3,766	1,666
Miscellaneous	22,000	120,161	105,285	(14,876)
Interest	4,500	8,951	11,382	2,431
Total Receipts	<u>933,611</u>	<u>1,148,043</u>	<u>1,130,961</u>	<u>(17,082)</u>
DISBURSEMENTS				
General Government	18,000	18,000	18,000	
Roads	628,240	670,657	630,558	40,099
Debt Service	15,000	12,569	6,228	6,341
Administration	308,000	484,513	313,989	170,524
Total Disbursements	<u>969,240</u>	<u>1,185,739</u>	<u>968,775</u>	<u>216,964</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(35,629)</u>	<u>(37,696)</u>	<u>162,186</u>	<u>199,882</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		35,000	35,000	
Transfers To Other Funds	(134,371)	(134,371)	(134,371)	
Total Other Adjustments to Cash (Uses)	<u>(134,371)</u>	<u>(99,371)</u>	<u>(99,371)</u>	
Net Change in Fund Balance	(170,000)	(137,067)	62,815	199,882
Fund Balance - Beginning (Restated)	<u>170,000</u>	<u>170,000</u>	<u>133,537</u>	<u>(36,463)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 32,933</u>	<u>\$ 196,352</u>	<u>\$ 163,419</u>

NICHOLAS 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	\$ 71,700	\$ 75,700	\$ 73,228	\$ (2,472)
Charges for Services	10,700	15,637	16,333	696
Miscellaneous		251	251	
Interest	125	358	419	61
Total Receipts	<u>82,525</u>	<u>91,946</u>	<u>90,231</u>	<u>(1,715)</u>
DISBURSEMENTS				
Protection to Persons and Property	218,981	230,243	200,401	29,842
Administration	17,500	15,659	15,612	47
Total Disbursements	<u>236,481</u>	<u>245,902</u>	<u>216,013</u>	<u>29,889</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(153,956)</u>	<u>(153,956)</u>	<u>(125,782)</u>	<u>28,174</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	151,456	151,456	130,200	(21,256)
Total Other Adjustments to Cash (Uses)	<u>151,456</u>	<u>151,456</u>	<u>130,200</u>	<u>(21,256)</u>
Net Change in Fund Balance	(2,500)	(2,500)	4,418	6,918
Fund Balance - Beginning	<u>2,500</u>	<u>2,500</u>	<u>313</u>	<u>(2,187)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,731</u>	<u>\$ 4,731</u>

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

COMMUNITY DEVELOPMENT BLOCK GRANT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Protection to Persons and Property	\$	\$ 1,042	\$ 1,042	\$
Total Disbursements		1,042	1,042	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(1,042)	(1,042)	
Net Change in Fund Balance		(1,042)	(1,042)	
Fund Balance - Beginning			1,042	1,042
Fund Balance - Ending	\$ 0	\$ (1,042)	\$ 0	\$ 1,042

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

	LANDFILL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 66,840	\$ 66,840	\$ 82,750	\$ 15,910
Miscellaneous	1,500	2,748	3,899	1,151
Interest	120	179	241	62
Total Receipts	<u>68,460</u>	<u>69,767</u>	<u>86,890</u>	<u>17,123</u>
DISBURSEMENTS				
Protection to Persons and Property		173	173	
General Health and Sanitation	108,540	128,769	128,314	455
Administration	13,800	12,255	12,209	46
Total Disbursements	<u>122,340</u>	<u>141,197</u>	<u>140,696</u>	<u>501</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(53,880)</u>	<u>(71,430)</u>	<u>(53,806)</u>	<u>17,624</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	49,880	49,880	56,000	6,120
Total Other Adjustments to Cash (Uses)	<u>49,880</u>	<u>49,880</u>	<u>56,000</u>	<u>6,120</u>
Net Change in Fund Balance	(4,000)	(21,550)	2,194	23,744
Fund Balance - Beginning	<u>4,000</u>	<u>4,376</u>	<u>4,376</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (17,174)</u>	<u>\$ 6,570</u>	<u>\$ 23,744</u>

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

	PHASE I FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 189,000	\$ 189,000	\$	\$ (189,000)
Interest	2,000	2,000		(2,000)
Total Receipts	<u>191,000</u>	<u>191,000</u>		<u>(191,000)</u>
DISBURSEMENTS				
Administration	191,000	191,000	36,591	154,409
Total Disbursements	<u>191,000</u>	<u>191,000</u>	<u>36,591</u>	<u>154,409</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>(36,591)</u>	<u>(36,591)</u>
Net Change in Fund Balance			(36,591)	(36,591)
Fund Balance - Beginning			<u>36,591</u>	<u>36,591</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

	MATHERS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 129,600	\$ 147,244	\$ 13,076	\$ (134,168)
Total Receipts	<u>129,600</u>	<u>147,244</u>	<u>13,076</u>	<u>(134,168)</u>
DISBURSEMENTS				
Social Services	82,800	88,400	79,500	8,900
Administration	346,800	361,444	2,097	359,347
Total Disbursements	<u>429,600</u>	<u>449,844</u>	<u>81,597</u>	<u>368,247</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(300,000)</u>	<u>(302,600)</u>	<u>(68,521)</u>	<u>234,079</u>
Net Change in Fund Balance	(300,000)	(302,600)	68,154	370,754
Fund Balance - Beginning	<u>300,000</u>	<u>302,600</u>	<u>302,600</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 370,754</u>	<u>\$ 370,754</u>

NICHOLAS 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 recreation and culture exceeded budgeted appropriations by \$2,000. This resulted from omitted financing obligation proceeds used to finance the acquisition of equipment.

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

For The Year Ended June 30, 2019

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NICHOLAS COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2019

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 628,173	\$ 525,163	\$	\$ 1,153,336
Construction In Progress	532,979		532,979	
Buildings	2,599,408	540,060		3,139,468
Vehicles	852,989	36,415	224,973	664,431
Equipment	827,133	13,000		840,133
Infrastructure	5,972,070	121,291		6,093,361
 Total Capital Assets	 <u>\$ 11,412,752</u>	 <u>\$ 1,235,929</u>	 <u>\$ 757,952</u>	 <u>\$ 11,890,729</u>

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

June 30, 2019

Note 1. Capital Assets

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

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 25,000	10 - 60
Buildings	\$ 50,000	10 - 100
Building Improvements	\$ 25,000	10 - 100
Vehicles	\$ 5,000	2 - 10
Equipment	\$ 5,000	2 - 10
Infrastructure	\$ 25,000	5 - 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 Steve Hamilton, Nicholas County Judge/Executive
The Honorable Roscoe Higginbotham, Former Nicholas County Judge/Executive
Members of the Nicholas 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 Nicholas County Fiscal Court for the fiscal year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the Nicholas County Fiscal Court's financial statement and have issued our report thereon dated May 19, 2020.

Internal Control Over Financial Reporting

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

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. *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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency as item 2019-001.



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 Nicholas 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Official and Planned Corrective Action

Nicholas 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 response was not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on it.

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,

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

Mike Harmon
Auditor of Public Accounts

May 19, 2020

**NICHOLAS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

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**NICHOLAS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2019-001 The Fiscal Court Did Not Record The Purchase Of Equipment

This is a repeat finding and was included in the prior year audit report as finding 2018-001. The fiscal court amended their budget for financing obligation proceeds for the purchase of a zero turn mower for parks and recreation use. Proceeds in the amount of \$5,500 were paid directly to vendors and were not included on the county's financial statements. The audited financial statement and the general fund's budgetary comparison schedule were adjusted to record the financing and purchase.

According to the county, this was due to a lack of understanding on how to record the amount on the receipts and disbursements ledgers. By not recording these items, after adjustments, the fiscal court exceeded the general fund budgeted appropriations for the "recreation and culture" line item by \$2,000.

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."

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*. This manual states in part, "[a]ll borrowed money received and repaid must be reflected in the county budget."

We recommend the fiscal court budget and record all debt proceeds and their related purchase. We recommend the fiscal court and the county treasurer monitor the budget more closely and amend the county's budget or transfer necessary appropriations in order to prevent the county from exceeding the budget.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Will record future equipment purchases correctly.