

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

**For The Year Ended
June 30, 2021**



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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
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, 2021, 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.

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



To the People of Kentucky
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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the 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, 2021, 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, 2021, 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 as 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.

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

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

To the People of Kentucky
The Honorable Andy Beshear, Governor
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Members of the Nicholas County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2022, 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 solely 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 effectiveness of 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:

2021-001 The Nicholas County Fiscal Court Failed To Implement Adequate Oversight For Disbursements

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

January 5, 2022

NICHOLAS COUNTY OFFICIALS**For The Year Ended June 30, 2021****Fiscal Court Members:**

Steve Hamilton	County Judge/Executive
Jeff Randolph	Magistrate
Mike Webb	Magistrate
Wayne Shields	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
Jacquelinee Earlywine	Property Valuation Administrator
Emily Gaunce	Coroner

Appointed Personnel:

Julie Watson	County Treasurer
Tammy McConnell	Administrative Assistant

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

For The Year Ended June 30, 2021

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

For The Year Ended June 30, 2021

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,089,672	\$	\$
Excess Fees	77,649		
Licenses and Permits	6,801		
Intergovernmental	128,088	1,466,395	72,898
Charges for Services	100,233	2,443	7,367
Miscellaneous	806,795	46,876	68
Interest	1,598	563	34
Total Receipts	<u>2,210,836</u>	<u>1,516,277</u>	<u>80,367</u>
DISBURSEMENTS			
General Government	709,018	18,000	
Protection to Persons and Property	715,246		116,650
General Health and Sanitation	27,326		
Social Services	35,186		
Recreation and Culture	7,500		
Roads		1,280,632	
Debt Service	45,845	264,633	
Capital Projects			
Administration	485,726	253,067	16,628
Total Disbursements	<u>2,025,847</u>	<u>1,816,332</u>	<u>133,278</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>184,989</u>	<u>(300,055)</u>	<u>(52,911)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds	60,000	250,000	
Gain On Sale Of Investments			
Transfers From Other Funds	313,489		52,300
Transfers To Other Funds	(100,300)		
Total Other Adjustments to Cash (Uses)	<u>273,189</u>	<u>250,000</u>	<u>52,300</u>
Net Change in Fund Balance	458,178	(50,055)	(611)
Fund Balance - Beginning (Restated)	<u>265,820</u>	<u>203,821</u>	<u>2,182</u>
Fund Balance - Ending	<u>\$ 723,998</u>	<u>\$ 153,766</u>	<u>\$ 1,571</u>
Composition of Fund Balance			
Bank Balance	\$ 706,591	\$ 155,765	\$ 1,571
Less: Outstanding Checks	(11,522)	(1,999)	
Certificates of Deposit	28,929		
Investments			
Fund Balance - Ending	<u>\$ 723,998</u>	<u>\$ 153,766</u>	<u>\$ 1,571</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, 2021
(Continued)

Federal Grants Fund	Landfill Fund	Budgeted Funds			Unbudgeted Fund
		Courthouse Maintenance/ Preservation Fund	American Rescue Plan Fund	Mathers Fund	Public Properties Corporation Fund
\$	\$	\$	\$	\$	\$
331,307			705,959		849,494
	102,638				
	7,130	76,106			
	18		27	4,024	452
<u>331,307</u>	<u>109,786</u>	<u>76,106</u>	<u>705,986</u>	<u>4,024</u>	<u>849,946</u>
	254				
	146,342			76,043	
					848,494
					6,657,168
39,013	12,830			3,235	1,750
<u>39,013</u>	<u>159,426</u>			<u>79,278</u>	<u>7,507,412</u>
<u>292,294</u>	<u>(49,640)</u>	<u>76,106</u>	<u>705,986</u>	<u>(75,254)</u>	<u>(6,657,466)</u>
	48,000			137,017	
<u>(292,294)</u>					
<u>(292,294)</u>	<u>48,000</u>			<u>137,017</u>	
	(1,640)	76,106	705,986	61,763	(6,657,466)
	9,353			442,136	9,911,350
<u>\$ 0</u>	<u>\$ 7,713</u>	<u>\$ 76,106</u>	<u>\$ 705,986</u>	<u>\$ 503,899</u>	<u>\$ 3,253,884</u>
\$	\$ 7,926	\$ 76,106	\$ 705,986	\$ 503,899	\$ 3,253,884
	(213)				
<u>\$ 0</u>	<u>\$ 7,713</u>	<u>\$ 76,106</u>	<u>\$ 705,986</u>	<u>\$ 503,899</u>	<u>\$ 3,253,884</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, 2021
(Continued)

	Private Purpose Trust Funds		Total Funds
	Knox Hospital Trust Fund	Mathers Educational Trust Fund	
RECEIPTS			
Taxes	\$	\$	\$ 1,089,672
Excess Fees			77,649
Licenses and Permits			6,801
Intergovernmental			3,554,141
Charges for Services			212,681
Miscellaneous			936,975
Interest	10,391	67,884	84,991
Total Receipts	<u>10,391</u>	<u>67,884</u>	<u>5,962,910</u>
DISBURSEMENTS			
General Government			727,018
Protection to Persons and Property			832,150
General Health and Sanitation			173,668
Social Services			111,229
Recreation and Culture			7,500
Roads			1,280,632
Debt Service			1,158,972
Capital Projects			6,657,168
Administration	2,072	13,888	828,209
Total Disbursements	<u>2,072</u>	<u>13,888</u>	<u>11,776,546</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>8,319</u>	<u>53,996</u>	<u>(5,813,636)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds			310,000
Gain On Sale Of Investments	13,604	53,422	67,026
Transfers From Other Funds			550,806
Transfers To Other Funds	(21,195)	(137,017)	(550,806)
Total Other Adjustments to Cash (Uses)	<u>(7,591)</u>	<u>(83,595)</u>	<u>377,026</u>
Net Change in Fund Balance	728	(29,599)	(5,436,610)
Fund Balance - Beginning (Restated)	<u>334,343</u>	<u>2,402,830</u>	<u>13,571,835</u>
Fund Balance - Ending	<u>\$ 335,071</u>	<u>\$ 2,373,231</u>	<u>\$ 8,135,225</u>
Composition of Fund Balance			
Bank Balance	\$ 9,561	\$ 36,950	\$ 5,458,239
Less: Outstanding Checks			(13,734)
Certificates of Deposit			28,929
Investments	<u>325,510</u>	<u>2,336,281</u>	<u>2,661,791</u>
Fund Balance - Ending	<u>\$ 335,071</u>	<u>\$ 2,373,231</u>	<u>\$ 8,135,225</u>

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

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**NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2021

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, 2021
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Federal Grants 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 federal government.

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.

Courthouse Maintenance/Preservation Fund - The primary purpose of this fund is to account for future courthouse maintenance and preservation. The primary source of receipts for this fund is the federal government.

American Rescue Plan Fund - The primary purpose of this fund is to account for American Rescue Plan Act receipts and related disbursements. The primary sources of receipts for this fund are grants from the federal government.

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, 2021
(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.

H. Joint Ventures

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

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 2. Deposits and Investments

A. Deposits

The fiscal court maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of June 30, 2021, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

B. Cash and Investments

As of June 30, 2021, the fiscal court had the following investments and maturities:

I. Cash

	<u>Cost</u>
Cash	\$ 5,444,505
Certificates of Deposit	<u>28,929</u>
Total Cash	<u>\$ 5,473,434</u>

II. Investments

	<u>Cost</u>
Common Stock	\$ 1,033,893
Mutual Funds	<u>1,627,898</u>
Total Investments	<u>\$ 2,661,791</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 2. Deposits and Investments (Continued)

B. Cash and Investments (Continued)

II. Investments (Continued)

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) or 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 \$2,661,791 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.

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, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian. These investments may be accomplished through repurchase agreements reached with sources including but not limited to national or state banks chartered in Kentucky;
- 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, including but not limited to:
 - a. United States Treasury;
 - b. Export-Import Bank of the United States;
 - c. Farmers Home Administration;
 - d. Government National Mortgage Corporation; and
 - e. Merchant Marine bonds;
- 3) Obligations of any corporation of the United States government, including but not limited to:
 - a. Federal Home Loan Mortgage Corporation;
 - b. Federal Farm Credit Banks;
 - c. Bank for Cooperatives;
 - d. Federal Intermediate Credit Banks;
 - e. Federal Land Banks;
 - f. Federal Home Loan Banks;
 - g. Federal National Mortgage Association; and
 - h. Tennessee Valley Authority;
- 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(4);
- 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;

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 2. Deposits and Investments (Continued)

B. Cash and Investments (Continued)

II. Investments (Continued)

- 8) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
- 8) 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;
- 9) 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; and
 - c. All of the securities in the mutual fund shall be eligible investments pursuant to this section;
- 10) Individual equity securities if the funds being invested are managed by a professional investment manager regulated by a federal regulatory agency. The individual equity securities shall be included within the Standard and Poor's 500 Index, and a single sector shall not exceed twenty-five percent (25%) of the equity allocation; and
- 11) Individual high-quality corporate bonds that are managed by a professional investment manager that:
 - a. Are issued, assumed, or guaranteed by a solvent institution created and existing under the laws of the United States;
 - b. Have a standard maturity of no more than ten years; and
 - c. Are rated in the three highest rating categories by at least two competent credit rating agencies.

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, 2021, the fiscal court has investments of less than 20 percent in these categories.

The fiscal court's rated investments, as of June 30, 2021, and the ratings are presented in the table below. All issuers of the municipal bonds are located in the Commonwealth of Kentucky.

Investments and Credit Ratings:

Type	Unrated/NA	Cost Basis
Investments:		
Common Stock	\$ 1,033,893	\$ 1,033,893
Mutual Funds	1,627,898	1,627,898
Total Investments	2,661,791	2,661,791
 Total Fund Balance	 \$ 2,661,791	 \$ 2,661,791

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.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 2. Deposits and Investments (Continued)

B. Cash and Investments (Continued)

II. Investments (Continued)

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.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2021.

	General Fund	Federal Grants Fund	Knox Hospital Trust Fund	Mathers Educational Trust Fund	Total Transfers In
General Fund	\$	\$ 292,294	\$ 21,195	\$	\$ 313,489
Jail Fund	52,300				52,300
Landfill Fund	48,000				48,000
Mathers Fund				137,017	137,017
Total Transfers Out	<u>\$ 100,300</u>	<u>\$ 292,294</u>	<u>\$ 21,195</u>	<u>\$ 137,017</u>	<u>\$ 550,806</u>

Reason for transfers:

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

Note 4. Custodial Funds

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, 2021 was \$335,071.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 4. Custodial Funds (Continued)

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, 2021 was \$2,373,231.

Note 5. Short-term Debt

A. Direct Borrowings and Direct Placements

1. Financing Obligation - Asphalt Projects

On April 22, 2021, the Nicholas County Fiscal Court entered into a \$250,000 loan agreement to finance asphalt projects. The loan interest rate was 4.0% with interest payments beginning May 22, 2021, and a final principal and interest payment due on April 22, 2022. In the event of a default, the lender may declare the entire unpaid principal balance under this note immediately due, and then borrower will pay that amount. This loan was paid in full as of June 30, 2021.

B. Changes In Short-term Debt

Short-term Debt activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$	\$ 250,000	\$ 250,000	\$	\$
Total Short-term Debt	\$ 0	\$ 250,000	\$ 250,000	\$ 0	\$ 0

Note 6. 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. 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.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 6. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

1. Financing Obligation - Building Improvement (Continued)

The outstanding balance as of June 30, 2021, was \$65,833. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 10,000	\$ 2,378
2023	10,000	2,128
2024	10,000	1,870
2025	10,000	1,592
2026	10,000	1,293
2027-2028	<u>15,833</u>	<u>1,437</u>
Totals	<u>\$ 65,833</u>	<u>\$ 10,698</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. Annual principal amounts begin January 1, 2019.

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.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 6. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

2. Financing Obligation - Buildings and Equipment (Continued)

The outstanding principal balance as of June 30, 2021, was \$125,000. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 5,000	\$ 4,325
2023	5,000	4,112
2024	5,000	3,900
2025	5,000	3,688
2026	5,000	3,525
2027-2031	40,000	14,856
2032-2036	50,000	7,119
2037	10,000	431
Totals	<u>\$ 125,000</u>	<u>\$ 41,956</u>

3. 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 of 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, 2021 was \$16,298. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 16,298	\$ 454
Totals	<u>\$ 16,298</u>	<u>\$ 454</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 6. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

4. 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 my otherwise repossess and liquidate or realize or foreclose upon the equipment in a lawful manner; or sell or re-lease the equipment. This agreement was paid in full as of June 30, 2021.

5. 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 my 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, 2021, was \$5,136. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 5,136	\$ 54
Totals	<u>\$ 5,136</u>	<u>\$ 54</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 6. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

6. Financing Obligation - Ambulance

On March 2, 2021, the Nicholas County Fiscal Court entered into a \$60,000 lease agreement for the purchase of an ambulance. The agreement requires 48 monthly payments of \$1,345 beginning April 20, 2021 and ending March 20, 2025. 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 project within seven days from the date of such notice; exercise all rights and remedies of a secured party with respect to the project and my otherwise repossess and liquidate or realize or foreclose upon the project in a lawful manner; or sell or re-lease the project.

The lease balance as of June 30, 2021 was \$55,468. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 13,210	\$ 1,583
2023	14,900	1,238
2024	15,429	710
2025	11,929	174
Totals	<u>\$ 55,468</u>	<u>\$ 3,705</u>

B. Other Debt

1. First Mortgage Revenue Bonds, Series 2020

On January 28, 2020, the Nicholas County, Kentucky Public Properties Corporation issued first mortgage revenue bonds in the amount of \$13,340,000 to finance the construction of the Nicholas County Judicial Center and to retire the 2018 bond anticipation notes. The bonds have interest rates ranging from 2 percent to 5 percent with a retirement date of June 1, 2039. The bonds require interest payments to be made on December 1 and June 1 of each year and principal payment is due on June 1 beginning June 1, 2020. Funding of the debt service is provided by a lease agreement with the Kentucky Administrative Office of the Courts (AOC).

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 6. Long-term Debt (Continued)

B. Other Debt (Continued)

1. First Mortgage Revenue Bonds, Series 2020 (Continued)

In the event the AOC elects not to renew this lease at any time, or fails to pay the stipulated 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 of or interest on the bonds, the mortgage, as the case may be, shall be enforced, which enforcement may, under the terms of the mortgage, include foreclosure of the liens created by the mortgage and sale of the project. The county may at any time, by payment of all costs of action and charges of trustee, and by discharge of principal of and interest of bonds, receive unencumbered fee simple title to the project. In the event of any such enforcement by the trustee from the proceeds of any operation of the project or foreclosure and sale of the project by the trustee there shall first be paid all expenses incident to said enforcement, as provided in the mortgage, and thereafter the bonds 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.

In case of default, bondholders may proceed to protect and enforce their rights by declaring all bonds due and payable, and if all default shall be made good, then, with the written consent of the owners of not less than 50 percent in principal amount of the outstanding bonds, by annulling such declaration and its consequences. In the event of default, each defaulted bond shall continue to bear interest after maturity at the interest rate applicable to such respective bonds until the necessary funds are made available for the payment thereof.

The outstanding principal balance as of June 30, 2021, was \$12,125,000. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 515,000	\$ 328,494
2023	535,000	307,894
2024	555,000	286,494
2025	580,000	264,294
2026	600,000	241,094
2027-2031	3,280,000	932,168
2032-2036	3,655,000	566,087
2037-2039	<u>2,405,000</u>	<u>121,125</u>
Totals	<u>\$ 12,125,000</u>	<u>\$ 3,047,650</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 6. Long-term Debt (Continued)

C. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 256,542	\$ 60,000	\$ 48,807	\$ 267,735	\$ 49,644
Revenue Bonds	12,625,000		500,000	12,125,000	515,000
Total Long-term Debt	<u>\$ 12,881,542</u>	<u>\$ 60,000</u>	<u>\$ 548,807</u>	<u>\$ 12,392,735</u>	<u>\$ 564,644</u>

D. Aggregate Debt Schedule

The amount of required principal and interest payments on long-term obligations at June 30, 2021, were as follows:

Fiscal Year Ended June 30	Direct Borrowings and Direct Placements		Other Debt	
	Principal	Interest	Principal	Interest
2022	\$ 49,644	\$ 8,794	\$ 515,000	\$ 328,494
2023	29,900	7,478	535,000	307,894
2024	30,429	6,480	555,000	286,494
2025	26,929	5,454	580,000	264,294
2026	15,000	4,818	600,000	241,094
2027-2031	55,833	16,293	3,280,000	932,168
2032-2036	50,000	7,119	3,655,000	566,087
2037	10,000	431	2,405,000	121,125
Totals	<u>\$ 267,735</u>	<u>\$ 56,867</u>	<u>\$ 12,125,000</u>	<u>\$ 3,047,650</u>

Note 7. 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. Effective April 1, 2021, the Kentucky Retirement Systems as an agency of the Commonwealth is now known as the Kentucky Public Pensions Authority (KPPA). The governance of CERS has been transferred to a separate 9-member board of trustees that is responsible for the governance of the CERS pension and insurance plans.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 7. Employee Retirement System (Continued)

The county's contribution for FY 2019 was \$197,499, FY 2020 was \$256,215, and FY 2021 was \$257,892.

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

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

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

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

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%

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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

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, KPPA 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.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 7. Employee Retirement System (Continued)

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 Public Pensions Authority, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KPPA 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 8. 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, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2021, 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 10. Prior Period Adjustment

The beginning balance of the general fund was increased \$150 to account for a prior year voided check.

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

For The Year Ended June 30, 2021

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NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2021

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 894,900	\$ 1,067,156	\$ 1,089,672	\$ 22,516
Excess Fees		77,649	77,649	
Licenses and Permits	6,350	6,664	6,801	137
Intergovernmental	92,225	134,961	128,088	(6,873)
Charges for Services	100,000	102,623	100,233	(2,390)
Miscellaneous	678,745	735,090	806,795	71,705
Interest	15,600	18,490	1,598	(16,892)
Total Receipts	<u>1,787,820</u>	<u>2,142,633</u>	<u>2,210,836</u>	<u>68,203</u>
DISBURSEMENTS				
General Government	616,819	795,356	709,018	86,338
Protection to Persons and Property	527,788	730,235	715,246	14,989
General Health and Sanitation	26,325	28,958	27,326	1,632
Social Services	42,000	42,000	35,186	6,814
Recreation and Culture	9,000	9,000	7,500	1,500
Debt Service	70,000	70,855	45,845	25,010
Administration	442,747	567,712	485,726	81,986
Total Disbursements	<u>1,734,679</u>	<u>2,244,116</u>	<u>2,025,847</u>	<u>218,269</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>53,141</u>	<u>(101,483)</u>	<u>184,989</u>	<u>286,472</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		60,000	60,000	
Transfers From Other Funds	124,210	124,210	313,489	189,279
Transfers To Other Funds	(298,851)	(298,851)	(100,300)	198,551
Total Other Adjustments to Cash (Uses)	<u>(174,641)</u>	<u>(114,641)</u>	<u>273,189</u>	<u>387,830</u>
Net Change in Fund Balance	(121,500)	(216,124)	458,178	674,302
Fund Balance - Beginning (Restated)	<u>121,500</u>	<u>265,820</u>	<u>265,820</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 49,696</u>	<u>\$ 723,998</u>	<u>\$ 674,302</u>

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 838,058	\$ 1,399,723	\$ 1,466,395	\$ 66,672
Charges for Services	700	2,443	2,443	
Miscellaneous	25,000	47,169	46,876	(293)
Interest	5,500	5,500	563	(4,937)
Total Receipts	<u>869,258</u>	<u>1,454,835</u>	<u>1,516,277</u>	<u>61,442</u>
DISBURSEMENTS				
General Government	18,000	18,000	18,000	
Roads	598,450	1,295,294	1,280,632	14,662
Debt Service	15,000	266,194	264,633	1,561
Administration	293,598	254,655	253,067	1,588
Total Disbursements	<u>925,048</u>	<u>1,834,143</u>	<u>1,816,332</u>	<u>17,811</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(55,790)</u>	<u>(379,308)</u>	<u>(300,055)</u>	<u>79,253</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		250,000	250,000	
Transfers To Other Funds	<u>(124,210)</u>	<u>(124,210)</u>		<u>124,210</u>
Total Other Adjustments to Cash (Uses)	<u>(124,210)</u>	<u>125,790</u>	<u>250,000</u>	<u>124,210</u>
Net Change in Fund Balance	(180,000)	(253,518)	(50,055)	203,463
Fund Balance - Beginning	<u>180,000</u>	<u>203,822</u>	<u>203,821</u>	<u>(1)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (49,696)</u>	<u>\$ 153,766</u>	<u>\$ 203,462</u>

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 73,100	\$ 73,345	\$ 72,898	\$ (447)
Charges for Services	11,700	12,300	7,367	(4,933)
Miscellaneous		68	68	
Interest	225	225	34	(191)
Total Receipts	<u>85,025</u>	<u>85,938</u>	<u>80,367</u>	<u>(5,571)</u>
DISBURSEMENTS				
Protection to Persons and Property	301,106	301,106	116,650	184,456
Administration	18,475	19,388	16,628	2,760
Total Disbursements	<u>319,581</u>	<u>320,494</u>	<u>133,278</u>	<u>187,216</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(234,556)</u>	<u>(234,556)</u>	<u>(52,911)</u>	<u>181,645</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	232,056	232,056	52,300	(179,756)
Total Other Adjustments to Cash (Uses)	<u>232,056</u>	<u>232,056</u>	<u>52,300</u>	<u>(179,756)</u>
Net Change in Fund Balance	(2,500)	(2,500)	(611)	1,889
Fund Balance - Beginning	<u>2,500</u>	<u>2,500</u>	<u>2,182</u>	<u>(318)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,571</u>	<u>\$ 1,571</u>

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

	FEDERAL GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$ 331,307	\$ 331,307	\$
Total Receipts		331,307	331,307	
DISBURSEMENTS				
Administration		39,013	39,013	
Total Disbursements		39,013	39,013	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		292,294	292,294	
Other Adjustments to Cash (Uses)				
Transfers To Other Funds		(292,294)	(292,294)	
Total Other Adjustments to Cash (Uses)		(292,294)	(292,294)	
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$ 0	\$ 0

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

	LANDFILL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 68,000	\$ 87,197	\$ 102,638	\$ 15,441
Miscellaneous	1,500	6,280	7,130	850
Interest	100	100	18	(82)
Total Receipts	<u>69,600</u>	<u>93,577</u>	<u>109,786</u>	<u>16,209</u>
DISBURSEMENTS				
Protection to Persons and Property	400	400	254	146
General Health and Sanitation	125,800	150,327	146,342	3,985
Administration	13,695	18,998	12,830	6,168
Total Disbursements	<u>139,895</u>	<u>169,725</u>	<u>159,426</u>	<u>10,299</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(70,295)</u>	<u>(76,148)</u>	<u>(49,640)</u>	<u>26,508</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	66,795	66,795	48,000	(18,795)
Total Other Adjustments to Cash (Uses)	<u>66,795</u>	<u>66,795</u>	<u>48,000</u>	<u>(18,795)</u>
Net Change in Fund Balance	(3,500)	(9,353)	(1,640)	7,713
Fund Balance - Beginning	<u>3,500</u>	<u>9,353</u>	<u>9,353</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,713</u>	<u>\$ 7,713</u>

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

COURTHOUSE MAINTENANCE/PRESERVATION FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Miscellaneous	\$	76,106	\$ 76,106	\$
Total Receipts		76,106	76,106	
DISBURSEMENTS				
Administration		76,106		76,106
Total Disbursements		76,106		76,106
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			76,106	76,106
Net Change in Fund Balance			76,106	76,106
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$ 76,106	\$ 76,106

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

AMERICAN RESCUE PLAN FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$	\$ 705,959	\$ 705,959	\$
Interest			27	27
Total Receipts		705,959	705,986	27
DISBURSEMENTS				
Administration		705,959		705,959
Total Disbursements		705,959		705,959
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			705,986	705,986
Net Change in Fund Balance			705,986	705,986
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 705,986	\$ 705,986

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

	MATHERS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 114,800	\$ 144,988	\$ 4,024	\$ (140,964)
Total Receipts	114,800	144,988	4,024	(140,964)
DISBURSEMENTS				
Social Services	120,700	120,700	76,043	44,657
Administration	414,100	466,424	3,235	463,189
Total Disbursements	534,800	587,124	79,278	507,846
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(420,000)	(442,136)	(75,254)	366,882
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			137,017	137,017
Total Other Adjustments to Cash (Uses)			137,017	137,017
Net Change in Fund Balance	(420,000)	(442,136)	61,763	503,899
Fund Balance - Beginning	420,000	442,136	442,136	
Fund Balance - Ending	\$ 0	\$ 0	\$ 503,899	\$ 503,899

NICHOLAS COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2021

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.

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

For The Year Ended June 30, 2021

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NICHOLAS COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2021

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 628,173	\$	\$ 100,000	\$ 528,173
Construction In Progress	3,087,298	6,657,168		9,744,466
Buildings	3,139,468		67,506	3,071,962
Vehicles	672,106	159,564	70,627	761,043
Equipment	854,133	59,945	18,000	896,078
Infrastructure	6,604,632	455,150		7,059,782
 Total Capital Assets	 <u>\$ 14,985,810</u>	 <u>\$ 7,331,827</u>	 <u>\$ 256,133</u>	 <u>\$ 22,061,504</u>

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

June 30, 2021

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
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, 2021, 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 January 5, 2022.

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) as a basis for designing 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 as item 2021-001 that we consider to be a significant deficiency.



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 financial statement. 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 finding 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

January 5, 2022

**NICHOLAS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2021

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**NICHOLAS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2021

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

2021-001 The Nicholas County Fiscal Court Failed To Implement Adequate Oversight For Disbursements

Our tests of disbursements included an examination of disbursements from the county's operating funds. We noted the following noncompliance issues:

- One disbursement totaling \$140,484, was not paid timely (within 30 working days of receiving the invoice or bill).
- Eight bids were accepted for road projects but the price paid did not agree to the accepted bid amount. The fiscal court did not insure the correct amount was paid to vendors according to the bid accepted which resulted in the county over paying vendors \$11,623.

The fiscal court did not implement adequate procedures and oversight regarding the preparation, and authorization of disbursements. Additional materials were required for road projects and no change orders were issued to the county resulting in \$11,623 being spent above bid amount. The absence of significant review procedures or oversight also allowed an invoice to not be processed timely and this occurred without detection or knowledge of the fiscal court. Another contributing factor to untimely payments was the absence of an effective purchase order system, which allows management to track outstanding obligations to ensure commitments are not made in excess of available resources/fund balances.

The fiscal court's failure to establish effective internal controls over disbursements resulted in instances of noncompliance and violations of statutes. A lack of proper accounting practices, internal controls, and oversight increases the risk that undetected misstatements will occur. Failure to pay obligations timely is indicative of poor financial management practices and can result in late fees and finance charges, which are a wasteful use of taxpayer resources. It is also a violation of statute for failure to pay invoices within 30 working days of receipt of the invoice or bill.

KRS 65.140 stipulates timely payments to vendors by stating, "[u]nless the purchaser and vendor otherwise contract, all bills for goods and 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."

Good internal controls dictate that the bid price agrees with the invoice and that any change orders be approved before payment in order to ensure good use of taxpayer dollars.

We recommend the fiscal court implement strong management oversight and review procedures to prevent and detect errors.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Will review bills and invoices to make sure they match.