

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

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Michael Williams, Bourbon County Judge/Executive
Members of the Bourbon 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 Bourbon County Fiscal Court, for the year ended June 30, 2020, and the related notes to the financial statement which collectively comprise the Bourbon 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.



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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 Bourbon 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 Bourbon County Fiscal Court as of June 30, 2020, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Bourbon County Fiscal Court as of June 30, 2020, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Bourbon 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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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2022, on our consideration of the Bourbon 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 Bourbon County Fiscal Court's internal control over financial reporting and compliance.

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

- 2020-001 The Bourbon County Fiscal Court Did Not Have Adequate Controls Over Disbursements
- 2020-002 The Bourbon County Fiscal Court Has Not Accounted For Debt Payments Made By The Administrative Office Of The Courts On Their Behalf

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Mike H", with a long horizontal stroke extending to the right.

Mike Harmon
Auditor of Public Accounts

January 25, 2022

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

Michael R. Williams	County Judge/Executive
Bart N. Horne	Magistrate
Randy Taulbee	Magistrate
Tony Sosby	Magistrate
Scott Wells	Magistrate
Don E. Menke	Magistrate
Jimmy Mason	Magistrate
Andrew W. Perraut	Magistrate

Other Elected Officials:

Gordon D. Wilson	County Attorney
Wesley Burberry	Jailer
Richard E. Eads	County Clerk
Trina Huston	Circuit Court Clerk
Tony Asbury	Sheriff
Tim Lizer	Property Valuation Administrator
Dee Gee M. Roe	Coroner

Appointed Personnel:

Dana H. Boone	County Treasurer
Jan Wagoner	Occupational Tax Collector
Christina Smith	Finance Officer

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

For The Year Ended June 30, 2020

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

For The Year Ended June 30, 2020

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 4,481,363	\$	\$	\$
Excess Fees	1,178,995			
Licenses and Permits	100,465			
Intergovernmental	1,496,543	2,005,432	160,341	108,243
Charges for Services	350			
Miscellaneous	220,823	16,083	123	
Interest	25,574	14,448	5,118	1,995
Total Receipts	<u>7,504,113</u>	<u>2,035,963</u>	<u>165,582</u>	<u>110,238</u>
DISBURSEMENTS				
General Government	2,368,111			
Protection to Persons and Property	1,493,812		104,757	61,865
General Health and Sanitation	247,641	17,144		
Social Services	207,299			
Recreation and Culture	2,516,308			
Roads		781,419		
Debt Service	476,251			
Capital Projects		932,761		
Administration	2,118,057	268,081	43,540	
Total Disbursements	<u>9,427,479</u>	<u>1,999,405</u>	<u>148,297</u>	<u>61,865</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,923,366)</u>	<u>36,558</u>	<u>17,285</u>	<u>48,373</u>
Other Adjustments to Cash (Uses)				
Transfer From Other Funds				
Transfer To Other Funds	(117,650)			
Payroll Fund Balance	142,909			
Lease Proceeds	2,750,000			
Total Other Adjustments to Cash (Uses)	<u>2,775,259</u>			
Net Change in Fund Balance	851,893	36,558	17,285	48,373
Fund Balance - Beginning (Restated)	<u>2,214,199</u>	<u>890,108</u>	<u>358,405</u>	<u>124,723</u>
Fund Balance - Ending	<u>\$ 3,066,092</u>	<u>\$ 926,666</u>	<u>\$ 375,690</u>	<u>\$ 173,096</u>
Composition of Fund Balance				
Bank Balance	\$ 2,801,676	\$ 973,127	\$ 375,690	\$ 174,237
Less: Outstanding Checks	(35,124)	(46,461)		(1,141)
Certificates of Deposit	299,540			
Investments				
Fund Balance - Ending	<u>\$ 3,066,092</u>	<u>\$ 926,666</u>	<u>\$ 375,690</u>	<u>\$ 173,096</u>

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

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

Budgeted Funds		Unbudgeted Fund	Private Purpose Trust Funds			
Jail Construction Fund	Phase I Fund	Educational Trust Fund Checking	Talbott Clay Trust Fund	Clifton Gillespie Trust Fund	John Martson Education Fund	
\$	\$	\$	\$	\$	\$	
	400,000					
		541	14,953	124,099	67,747	
9,738	2,651	210	22,484	26,321	4,797	
9,738	402,651	751	37,437	150,420	72,544	
		141,596	6,211	27,789	22,667	
704,000						
34,885						
	456,413					
738,885	456,413	141,596	6,211	27,789	22,667	
(729,147)	(53,762)	(140,845)	31,226	122,631	49,877	
117,650		353,064				
			(15,778)	(141,611)	(80,488)	
117,650		353,064	(15,778)	(141,611)	(80,488)	
(611,497)	(53,762)	212,219	15,448	(18,980)	(30,611)	
841,101	53,982	688,542	376,568	1,908,335	1,585,918	
\$ 229,604	\$ 220	\$ 900,761	\$ 392,016	\$ 1,889,355	\$ 1,555,307	
\$ 229,604	\$ 49,973	\$ 900,761	\$ 2,299	\$ 10,432	\$ 184,909	
	(49,753)					
			22,381	21,127		
			367,336	1,857,796	1,370,398	
\$ 229,604	\$ 220	\$ 900,761	\$ 392,016	\$ 1,889,355	\$ 1,555,307	

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

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

	Private Purpose Trust Funds			
	Willmott Memorial Trust Fund	Robert Meteer Trust Fund	Lucy Anderson Trust Fund	Howard Forquer Trust Fund
RECEIPTS				
Taxes	\$	\$	\$	\$
Excess Fees				
Licenses and Permits				
Intergovernmental				
Charges for Services				
Miscellaneous	45,867	40,970	256,485	49,481
Interest	930	212	221	180
Total Receipts	<u>46,797</u>	<u>41,182</u>	<u>256,706</u>	<u>49,661</u>
DISBURSEMENTS				
General Government				
Protection to Persons and Property				
General Health and Sanitation				
Social Services	147,995	14,058	8,485	32,384
Recreation and Culture				
Roads				
Debt Service				
Capital Projects				
Administration				
Total Disbursements	<u>147,995</u>	<u>14,058</u>	<u>8,485</u>	<u>32,384</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(101,198)</u>	<u>27,124</u>	<u>248,221</u>	<u>17,277</u>
Other Adjustments to Cash (Uses)				
Transfer From Other Funds				
Transfer To Other Funds		(43,409)	(23,072)	(28,342)
Payroll Fund Balance				
Lease Proceeds				
Total Other Adjustments to Cash (Uses)	<u></u>	<u>(43,409)</u>	<u>(23,072)</u>	<u>(28,342)</u>
Net Change in Fund Balance	(101,198)	(16,285)	225,149	(11,065)
Fund Balance - Beginning (Restated)	<u>2,852,557</u>	<u>1,212,504</u>	<u>512,168</u>	<u>654,703</u>
Fund Balance - Ending	<u>\$ 2,751,359</u>	<u>\$ 1,196,219</u>	<u>\$ 737,317</u>	<u>\$ 643,638</u>
Composition of Fund Balance				
Bank Balance	\$ 133,987	\$ 3,364	\$ 5,599	\$ 7,044
Less: Outstanding Checks				
Certificates of Deposit				
Investments	<u>2,617,372</u>	<u>1,192,855</u>	<u>731,718</u>	<u>636,594</u>
Fund Balance - Ending	<u>\$ 2,751,359</u>	<u>\$ 1,196,219</u>	<u>\$ 737,317</u>	<u>\$ 643,638</u>

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

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

Private Purpose Trust Funds				
Ella Davis Trust Fund	Education #1 E.M. Costello, Garth, Costello, Hamilton, Champ Trust Fund	Education #2 Kennedy, Hinkle, Redmon, Goff Trust Fund	Health and Welfare Trust Fund	Total Funds
\$	\$	\$	\$	\$
				4,481,363
				1,178,995
				100,465
				4,170,559
				350
1,926	10,014	7,475	114	856,701
49	1,777	70		116,775
1,975	11,791	7,545	114	10,905,208
				2,368,111
				1,660,434
				264,785
1,842	3,162	3,354		616,842
				2,516,308
				781,419
				1,180,251
				967,646
				2,886,091
1,842	3,162	3,354		13,241,887
133	8,629	4,191	114	(2,336,679)
				470,714
	(13,058)	(7,306)		(470,714)
				142,909
				2,750,000
	(13,058)	(7,306)		2,892,909
133	(4,429)	(3,115)	114	556,230
93,378	217,205	172,947	13,570	14,770,913
\$ 93,511	\$ 212,776	\$ 169,832	\$ 13,684	\$ 15,327,143
\$ 3,976	\$ 4,280	\$ 2,614	\$ 412	\$ 5,863,984
				(132,479)
			13,272	356,320
89,535	208,496	167,218		9,239,318
\$ 93,511	\$ 212,776	\$ 169,832	\$ 13,684	\$ 15,327,143

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

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**BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2020

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

Jail Construction Fund - The primary purpose of this fund is to account for the jail expansion project. The primary sources of receipts for this fund are drawdowns from series 2016 and series 2017 bond issues.

Phase I Fund - The primary purpose of this fund is to account for a settlement between tobacco-growing states and the four largest cigarette manufacturers to offset income losses farmers are expected to experience as a result of changes within the tobacco industry. Compensation is limited to those individuals, residing in the state of Kentucky, who maintain a vested interest in tobacco production, compensation designated for this party would revert to the pool of compensation to be shared by active tobacco producers (quota owners and tenants).

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Educational Trust Fund Checking - The educational trust fund checking accounts for the activities of the private purpose trust funds. The Department for Local Government does not require the fiscal court to budget this fund.

D. Budgetary Information

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

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

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 educational trust fund checking to be budgeted.

E. Bourbon County Elected Officials

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

E. Bourbon County Elected Officials (Continued)

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 Bourbon 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 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.

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

Note 2. Deposits and Investments (Continued)

A. Deposits (Continued)

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*. However, as of June 30, 2020, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$1,902,107

B. Investments

As of June 30, 2020, the fiscal court had the following investments and maturities:

I. Investments	Cost					
	< 1 Year	1-5 Years	6-10 Years	11-15 Years	16-20 Years	> 20 Years
Fixed Income Investments:						
Corporate Bonds	\$ 23,834	\$	\$	\$	\$	\$
Government Bonds		14,553	78,512			
Total:	<u>\$ 23,834</u>	<u>\$ 14,553</u>	<u>\$ 78,512</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
II. Other Investments	Cost					
Common Stock	\$ 1,567,762					
Mutual Funds	7,554,657					
Total:	<u>9,122,419</u>					
Total Investments	<u>\$ 9,239,318</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) 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 \$279,539 of certificates of deposit and \$9,239,318 of investments in securities held by the counterparties' trust departments in the fiscal court's name. The counterparty maintains the \$279,539 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:

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

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

- 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;
- 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; and
 - c. All of the securities in the mutual fund shall be eligible investments pursuant to this section;
- 11) 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
- 12) 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.

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

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

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.

The fiscal court's rated investments, as of June 30, 2020, and the ratings are presented in the table below. All issuers of the municipal bonds are located in the Commonwealth of Kentucky.

	AAA	AA2	A2	A3	BAA3	B	Unrated	Cost
Fixed Income Investments:								
Corporate Bonds	\$	\$	\$ 23,834	\$	\$	\$	\$	\$ 23,834
Government Bonds	93,065							93,065
Common Stock						1,567,762		1,567,762
Mutual Funds							7,554,657	7,554,657
Total Investments	\$ 93,065	\$ 0	\$ 23,834	\$ 0	\$ 0	\$ 1,567,762	\$ 7,554,657	\$ 9,239,318

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.

Note 3. 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:

John Marston Education Trust Fund - This fund was established by the will and codicil of John Marston. The will imposed that the funds be held in perpetuity, meaning that the original principal amount remains intact. The primary purpose of this fund is to account for income generated by the principal. The income, less applicable administrative costs, is to be spent for educational scholarships. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Clifton Gillespie Trust Fund - This fund was established by the will and codicil of Clifton Gillespie. The will imposed that the funds be held in perpetuity, meaning that the original principal amount remains intact. The primary purpose of this fund is to provide financial assistance with hospital care to indigent residents of Bourbon County. The county judge/executive decides who shall receive assistance from this fund by applications submitted. Each eligible person is limited to \$2,000.

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

Note 3. Private Purpose Trust Funds (Continued)

Willmott Memorial Trust Fund - This fund was established by the will and codicil of James Worthington Willmott. The will imposed that the funds be held in perpetuity, meaning the original principal amount remains intact. The primary purpose of this fund is to provide financial assistance to college students, or potential college students, residing in Bourbon County, Kentucky, and the counties adjacent to Bourbon County. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Robert Meter Trust Fund - This fund was established by the will and codicil of Robert Meter. The will imposed that the funds be held in perpetuity, meaning the original principal amount remains intact. The primary purpose of this fund is to provide financial assistance to young women residing in Bourbon County, Kentucky, who want to continue their education at a college institution. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Lucy Anderson Trust Fund - This fund was established by the will and codicil of Lucy D. Anderson. The will imposed that the funds be held in perpetuity, meaning the original principal amount remains intact. The primary purpose of this fund is to provide financial assistance to male college students or potential male college students residing in Bourbon County, Kentucky. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Talbott Clay Trust Fund - This fund was established by the will and codicil of Talbott Clay. The will imposed that the funds be held in perpetuity, meaning the original principal amount remains intact. The primary purpose of this fund is to provide educational scholarships for clothing, school supplies, means of transportation to and from school, and any equipment other than tuition fees to young men and women residing in Bourbon County, Kentucky. These benefits are to be granted to the heirs of Albert R. Talbott and Ayletti H. Bedford first. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Ella Davis Trust Fund - This fund was established by the will and codicil of Ella Davis. The will imposed that the funds be held in perpetuity, meaning the original principal amount remains intact. The primary purpose of this fund is to provide financial assistance, for transportation, to cancer patients residing in Bourbon County, Kentucky. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Howard Forquer Trust Fund - This fund was established by the will and codicil of Hallie H. Forquer. The will imposed that the funds be held in perpetuity, meaning the original principal amount remains intact. The primary purpose of this fund is to provide financial assistance with education to young girls and boys residing in Bourbon County, Kentucky. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Education #1 E.M. Costello, Garth, Costello, Hamilton, Champ Trust Fund - This fund was established to consolidate the following trust funds: E.M. Costello Fund, Garth Fund, Thomas Costello Fund, Hamilton Fund, and Frances Champ Fund in 2014. The primary purpose of this fund is to account for income generated by the principal. The income, less applicable administrative costs, is to be spent for educational scholarships to young men and women residing in Bourbon County, Kentucky. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

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

Note 3. Private Purpose Trust Funds (Continued)

Education #2 Kennedy, Hinkle, Redmon, Goff Trust Fund - This fund was established to consolidate the following trust funds: Harrell-Kennedy Fund, Brooks Hinkle Fund, Lou Davis Redmon Fund, and May Goff Fund in 2014. The primary purpose of this fund is to account for income generated by the principal. The income, less applicable administrative costs, is to be spent for educational scholarships to young men and women residing in Bourbon County, Kentucky. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Health and Welfare Trust Fund - This fund was established by two deposits from a trust account for financial assistance to Bourbon County residents with medical expenses. These deposits were for the assistance of the health and welfare fund and not for the creation of the fund. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Note 4. Long-term Debt

A. Direct Borrowings and Direct Placements

1. Kentucky Association of Counties Revenue Bonds, Series 2014A (Energy Savings Project)

On April 3, 2014, the Kentucky Association of Counties Finance Corporation issued financing program revenue bonds, series 2014A, in the amount of \$275,000 for the purpose of acquisition and installation of energy efficiency improvements to the courthouse.

The county will be in default under the terms of the agreement if any one or more of the following occurs: (a) failure by the lessee to pay any lease rental payments at the time specified herein; (b) failure by the lessee to vacate or surrender the project by the July 1 following an event of nonappropriation as defined in the agreement; (c) failure by the lessee to observe or perform any covenant, condition or agreement on its part to be observed or performed, other than referred to in subsection (a) or (b) of this section, for a period of 30 days after written notice specifying such failure and requesting that it be remedied will have been given to the lessee by the lessor unless the lessor agrees in writing to an extension of such time prior to its expiration. This agreement may be terminated by any party to this agreement upon thirty days' written notice of termination delivered to the other party or parties to this agreement; provided the termination of this agreement is not effective until (i) the participant, or its successor, enters into a new continuing disclosure agreement with a disclosure agent who agrees to continue to provide, to the MSRB and the holders of bonds, all information required to be communicated pursuant to the rules promulgated by the SEC or the MSRB, (ii) nationally recognized bond counsel or counsel expert in federal securities laws provides an opinion that the new continuing disclosure agreement is in compliance with all state and federal securities laws and (iii) notice of the termination of this agreement is provided to the MSRB. This agreement shall terminate when all of the corporation bonds are or are deemed to be no longer outstanding by reason of redemption or legal defeasance or at maturity.

Principal payments are due annually on December 20, beginning in 2014, and interest, which varies from 2.48 percent to 3.25 percent, is payable semi-annually on June 20 and December 20, beginning on June 20, 2014. As of June 30, 2020, the outstanding principal balance was \$120,000. Future principal and interest requirements are:

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

Note 4. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

1. Kentucky Association of Counties Revenue Bonds, Series 2014A (Energy Savings Project) (Continued)

Fiscal Year Ended June 30,	Principal	Interest
2021	\$ 30,000	\$ 3,700
2022	30,000	2,725
2023	30,000	1,750
2024	30,000	775
Totals	<u>\$ 120,000</u>	<u>\$ 8,950</u>

2. Refunding Revenue Lease, Series 2016 (Courthouse Facilities Project)

On March 23, 2016, the Bourbon County Fiscal Court issued \$2,055,371 of refunding revenue lease, series 2016, for the purpose of refinancing the court facilities project, series 2006 bonds. The county is in default under the agreement if any one or more of the following events occur: (a) lessee's or sublessee's failure to make any lease payment (or any other payment) as it becomes due in accordance with the terms of this lease, and the failure continues for 15 days after the due date; (b) lessee's or sublessee's failure to perform or observe any other covenant, condition or agreement to be performed or observed by it under this lease or the sublease, and the failure is not cured or steps satisfactory to lessor taken to cure the failure, within 15 days after written notice of the failure to lessee by lessor; or (c) the discovery by lessor that any material statement, representation or warranty made by lessee in this lease or in any writing delivered by lessee pursuant to or in connection with this lease is false, misleading, or erroneous in any material respect. The bond requires semi-annual interest payments due on August 1 and February 1. The lease will mature on February 1, 2022. As of June 30, 2020, the outstanding principal balance was \$719,964. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Principal	Interest
2021	\$ 366,641	\$ 11,160
2022	353,323	5,475
Totals	<u>\$ 719,964</u>	<u>\$ 16,635</u>

3. Body Scanner Lease

On July 20, 2017, the Bourbon County Fiscal Court entered into a fixed rate lease in the amount of \$185,000 for the purpose of leasing a body scanner. The county would be in default on the lease if any of the following occurred: (a) lessee's failure to make any lease payment (or any other payment) as it becomes due in accordance with the terms of this lease; (b) failure by the lessee to vacate or surrender the project by the July 1 following an event of nonappropriation as defined in the lease agreement, (c) lessee's failure to perform or observe any other covenant, condition or agreement to be performed or observed by it under this lease or any document delivered by lessee pursuant to or in connection with this lease, and the failure is not cured or steps satisfactory to lessor taken to cure the failure, within 15 days after written notice of the failure to lessee by lessor; (d) any material statement, representation or warranty made by lessee in this lease or in any writing delivered by lessee pursuant to or in connection with this lease is false, misleading or erroneous in any material respect.

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

Note 4. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

3. Body Scanner Lease (Continued)

Principal and interest, which is calculated at a rate of 3.5 percent, are due biannually on June 20 and December 20, beginning on December 20, 2017. The lease terminates on June 20, 2024. As of June 30, 2020, the outstanding principal balance was \$110,243. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Principal	Interest
2021	\$ 26,350	\$ 3,630
2022	27,141	2,701
2023	27,956	1,743
2024	28,796	758
Totals	<u>\$ 110,243</u>	<u>\$ 8,832</u>

4. Park Land Lease

On March 10, 2020, the Bourbon County Fiscal Court issued \$2,750,000 of revenue bonds 2020, series A, for the purpose of developing park land. The bond requires semi-annual interest payments due on June 20 and December 20. The lease will mature on June 30, 2040. As of June 30, 2020, the outstanding principal balance was \$2,750,000, with only interest of \$30,402 being paid during the fiscal year 2020. The following events are considered default for this agreement: failure by the lessee to pay any lease rental payments at the time specified in the agreement; failure by the lessee to vacate or surrender the project by the July 1 following at event of nonappropriation as defined in the agreement; and failure by the lessee to perform any covenant, condition or agreement on its part to be observed or performed other than referred to previously, for a period of 30 days after written notice specifying such failure and requesting that it be remedied will have been given to the lessee by the lessor unless the lessor agrees in writing to an extension of such time prior to its expiration.

Fiscal Year Ended June 30,	Principal	Interest
2021	\$ 95,000	\$ 36,924
2022	100,000	34,924
2023	105,000	32,824
2024	110,000	30,624
2025	115,000	28,324
2026-2030	650,000	105,019
2031-2035	740,000	61,770
2036-2040	835,000	20,324
Totals	<u>\$ 2,750,000</u>	<u>\$ 350,733</u>

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

Note 4. Long-term Debt (Continued)

B. Other Debt

1. General Obligation Refunding and Improvement Bonds, Series 2016 (Jail Expansion Project)

On August 10, 2016, the Bourbon County Fiscal Court issued \$7,300,000 of general obligation refunding and improvement bonds, series 2016, for the purpose of expansion of the regional jail. The bond requires semi-annual interest payments due on December 1 and June 1. The bond will mature on June 1, 2036. As of June 30, 2020, the outstanding principal balance was \$6,450,000.

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% 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. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Principal	Interest
2021	\$ 365,000	\$ 210,250
2022	375,000	202,950
2023	395,000	187,950
2024	410,000	172,150
2025	420,000	155,750
2026-2030	1,995,000	550,700
2031-2035	2,045,000	254,550
2036	445,000	13,350
Totals	<u>\$ 6,450,000</u>	<u>\$ 1,747,650</u>

2. General Obligation Refunding and Improvement Bonds, Series 2017 (Additional Funding for Jail Expansion Project)

On February 23, 2017, the Bourbon County Fiscal Court issued \$1,735,000 of General Obligation Refunding and Improvement Bonds, Series 2017 for the purpose of additional funding for the expansion of the regional jail. The bond requires semi-annual interest payments due on December 1 and June 1. The bond will mature on June 1, 2036. As of June 30, 2020, the outstanding principal balance was \$1,585,000.

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 fifty percent (50%) 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. Future principal and interest requirements are:

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

Note 4. Long-term Debt (Continued)

B. Other Debt

2. General Obligation Refunding and Improvement Bonds, Series 2017 (Additional Funding for Jail Expansion Project) (Continued)

Fiscal Year Ended June 30,	Principal	Interest
2021	\$ 80,000	\$ 49,300
2022	80,000	46,900
2023	85,000	44,500
2024	85,000	41,950
2025	90,000	39,400
2026-2030	480,000	166,600
2031-2035	560,000	66,025
2036	125,000	4,219
Totals	<u>\$ 1,585,000</u>	<u>\$ 458,894</u>

C. Aggregate Debt Schedule

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

Fiscal Year Ended June 30	Other Debt		Direct Borrowings and Direct Placements	
	Principal	Interest	Principal	Interest
2021	\$ 445,000	\$ 259,550	\$ 517,991	\$ 55,414
2022	455,000	249,850	510,464	45,825
2023	480,000	232,450	162,956	36,317
2024	495,000	214,100	168,796	32,157
2025	510,000	195,150	115,000	28,324
2026-2030	2,475,000	717,300	650,000	105,019
2031-2035	2,605,000	320,575	740,000	61,770
2036-2040	570,000	17,569	835,000	20,324
Total Long-term Debt	<u>\$ 8,035,000</u>	<u>\$2,206,544</u>	<u>\$ 3,700,207</u>	<u>\$ 385,150</u>

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

Note 4. Long-term Debt (Continued)

D. Changes In Long-term Debt

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

	(Restated) Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 1,370,406	\$2,750,000	\$ 420,199	\$ 3,700,207	\$ 517,991
General Obligation Bonds	8,470,000		435,000	8,035,000	445,000
Total Long-term Debt	<u>\$ 9,840,406</u>	<u>\$2,750,000</u>	<u>\$ 855,199</u>	<u>\$11,735,207</u>	<u>\$ 962,991</u>

Note 5. Commitments and Contingencies

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

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 2018 was \$553,551, FY 2019 was \$584,894, and FY 2020 was \$693,738.

Nonhazardous

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

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

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

Note 6. Employee Retirement System (Continued)

Nonhazardous (Continued)

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

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

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute 8 percent of their annual creditable compensation and also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a 7.5 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

The county's contribution rate for hazardous employees was 39.58 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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.

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

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

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

D. Cost of Living Adjustments - Tier 1

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

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

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

F. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

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

Note 7. Deferred Compensation

The Bourbon 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 8. Health Reimbursement Account/Flexible Spending Account

The Bourbon County Fiscal Court established a health reimbursement account on July 1, 2009, to provide employees an additional health benefit. The county has contracted with a third-party, to administer the plan. The plan provides a debit card to each eligible employee providing \$2,000 each year to pay for qualified medical expenses.

Note 9. Insurance

For the fiscal year ended June 30, 2020, the Bourbon 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. Conduit Debt

From time to time the county has issued bonds to provide financial assistance for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Bourbon County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement.

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

Note 11. Bourbon County - Nicholas County Regional Jail Authority

Under KRS 441.800, the Bourbon County Fiscal Court approved an order to form the Bourbon County - Nicholas County Regional Jail Authority, effective July 1, 2010, which houses inmates from both Bourbon and Nicholas Counties. Under KRS 441.810, the regional jail authority is composed of members appointed by the county judges/executive of the respective counties. Also, the Bourbon County Fiscal Court approved a management and use agreement, inclusive of a lease clause for the use of the Bourbon County Detention Center at \$1 per year.

Note 12. Tax Abatement

The occupational tax license fee for Central Motor Wheel of America, Inc., was abated under the authority of Resolution No. 04-25-19-01, adopted by the county on April 25, 2019. Central Motor Wheel of America, Inc., is eligible to receive this tax abatement due to its commitment to expand operations and create jobs and investments. The taxes are abated allowing the company to retain one-half of one percent (0.5%) of occupational tax license fees which would be paid by new employees from their salaries and wages. For fiscal year ended June 30, 2020, the Bourbon County Fiscal Court did not abate any occupational tax license fees.

Note 13. Transfers

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

	General Fund	Talbot Clay Fund	Clifton Gillespie Fund	John Marston Fund	Robert Meter Fund	Lucy Anderson Fund	Howard Forquer Fund	Educational Fund #1 Champ, Costello	Educational Fund #2 Kennedy, Hinkle	Total Transfers In
Jail Construction Fund	\$ 117,650	\$	\$	\$	\$	\$	\$	\$	\$	\$ 117,650
Education Trust Fund Checking		15,778	141,611	80,488	43,409	23,072	28,342	13,058	7,306	353,064
Total Transfers Out	\$117,650	\$ 15,778	\$ 141,611	\$ 80,488	\$ 43,409	\$ 23,072	\$ 28,342	\$ 13,058	\$ 7,306	\$ 470,714

Reason for transfers:

To move resources to and from the educational trust fund checking and trust funds to the funds that will expend them.

Note 14. Prior Period Balance Restatement

The beginning fund balance of the general fund was restated and increased by \$33,136 to account for the lease proceeds balance held in the KACo bank account on behalf of the county and prior year interest error. The beginning fund balance of the phase I fund was restated and increased by \$2,500 to account for prior year errors.

Note 15. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2020, in the amount of \$142,909, was added to the general fund cash balance for financial reporting purposes.

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2020

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BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2020

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 5,192,900	\$ 5,192,900	\$ 4,481,363	\$ (711,537)
Excess Fees	992,000	1,914,325	1,178,995	(735,330)
Licenses and Permits	84,200	84,200	100,465	16,265
Intergovernmental	2,201,657	3,491,657	1,496,543	(1,995,114)
Charges for Services		1,500	350	(1,150)
Miscellaneous	170,310	206,030	220,823	14,793
Interest	15,000	17,480	25,574	8,094
Total Receipts	8,656,067	10,908,092	7,504,113	(3,403,979)
DISBURSEMENTS				
General Government	2,326,871	3,263,019	2,368,111	894,908
Protection to Persons and Property	1,568,230	1,600,029	1,493,812	106,217
General Health and Sanitation	1,546,801	1,617,496	247,641	1,369,855
Social Services	236,793	236,793	207,299	29,494
Recreation and Culture	325,335	3,070,969	2,516,308	554,661
Debt Service	182,440	2,470,135	476,251	1,993,884
Capital Projects	60,000	60,000		60,000
Administration	5,451,760	5,560,219	2,118,057	3,442,162
Total Disbursements	11,698,230	17,878,660	9,427,479	8,451,181
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(3,042,163)	(6,970,568)	(1,923,366)	5,047,202
Other Adjustments to Cash (Uses)				
Lease Proceeds		2,243,293	2,750,000	506,707
Payroll Fund Balance			142,909	142,909
Transfers From Other Funds		2,750,000		(2,750,000)
Transfers To Other Funds		10,565	(117,650)	(128,215)
Total Other Adjustments to Cash (Uses)		5,003,858	2,775,259	(2,228,599)
Net Change in Fund Balance	(3,042,163)	(1,966,710)	851,893	2,818,603
Fund Balance - Beginning (Restated)	3,042,163	3,052,163	2,214,199	(837,964)
Fund Balance - Ending	\$ 0	\$ 1,085,453	\$ 3,066,092	\$ 1,980,639

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

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,129,188	\$ 1,994,977	\$ 2,005,432	\$ 10,455
Miscellaneous	20,000	30,710	16,083	(14,627)
Interest	10,000	10,000	14,448	4,448
Total Receipts	<u>1,159,188</u>	<u>2,035,687</u>	<u>2,035,963</u>	<u>276</u>
DISBURSEMENTS				
General Health and Sanitation	30,000	30,000	17,144	12,856
Roads	929,124	1,089,569	781,419	308,150
Capital Projects	632,303	1,358,777	932,761	426,016
Administration	613,057	602,637	268,081	334,556
Total Disbursements	<u>2,204,484</u>	<u>3,080,983</u>	<u>1,999,405</u>	<u>1,081,578</u>
Net Change in Fund Balance	(1,045,296)	(1,045,296)	36,558	1,081,854
Fund Balance - Beginning	<u>1,045,296</u>	<u>1,045,296</u>	<u>890,108</u>	<u>(155,188)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 926,666</u>	<u>\$ 926,666</u>

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

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 169,100	\$ 169,100	\$ 160,341	\$ (8,759)
Miscellaneous	5,000	5,000	123	(4,877)
Interest	3,500	3,500	5,118	1,618
Total Receipts	177,600	177,600	165,582	(12,018)
DISBURSEMENTS				
Protection to Persons and Property	110,591	124,398	104,757	19,641
Administration	332,774	318,967	43,540	275,427
Total Disbursements	443,365	443,365	148,297	295,068
Net Change in Fund Balance	(265,765)	(265,765)	17,285	283,050
Fund Balance - Beginning	265,765	265,765	358,405	92,640
Fund Balance - Ending	\$ 0	\$ 0	\$ 375,690	\$ 375,690

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 60,000	\$ 60,000	\$ 108,243	\$ 48,243
Interest	900	900	1,995	1,095
Total Receipts	60,900	60,900	110,238	49,338
DISBURSEMENTS				
Protection to Persons and Property	65,000	65,000	61,865	3,135
Capital Projects	111,752	111,752		111,752
Total Disbursements	176,752	176,752	61,865	114,887
Net Change in Fund Balance	(115,852)	(115,852)	48,373	164,225
Fund Balance - Beginning	115,852	115,852	124,723	8,871
Fund Balance - Ending	\$ 0	\$ 0	\$ 173,096	\$ 173,096

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

JAIL CONSTRUCTION FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Interest	\$	\$	\$ 9,738	\$ 9,738
Total Receipts			9,738	9,738
DISBURSEMENTS				
Debt Service	586,350	586,350	704,000	(117,650)
Capital Projects	251,998	251,998	34,885	217,113
Total Disbursements	838,348	838,348	738,885	99,463
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(838,348)	(838,348)	(729,147)	109,201
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			117,650	117,650
Total Other Adjustments to Cash (Uses)			117,650	117,650
Net Change in Fund Balance	(838,348)	(838,348)	(611,497)	226,851
Fund Balance - Beginning	838,348	838,348	841,101	2,753
Fund Balance - Ending	\$ 0	\$ 0	\$ 229,604	\$ 229,604

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

PHASE I FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 300,000	\$ 400,000	\$ 400,000	\$
Interest			2,651	2,651
Total Receipts	<u>300,000</u>	<u>400,000</u>	<u>402,651</u>	<u>2,651</u>
DISBURSEMENTS				
Administration	<u>300,000</u>	<u>400,000</u>	<u>456,413</u>	<u>(56,413)</u>
Total Disbursements	<u>300,000</u>	<u>400,000</u>	<u>456,413</u>	<u>(56,413)</u>
Net Change in Fund Balance			(53,762)	(53,762)
Fund Balance - Beginning (Restated)			<u>53,982</u>	<u>53,982</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 220</u>	<u>\$ 220</u>

BOURBON COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2020

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

The phase 1 fund, administration line item, and jail construction fund, debt service line item, exceeded budgeted appropriations by \$56,413 and \$117,650, respectively.

Note 3. Unbalanced Budget

The overall final budget does not net to zero due to the approval of an unbalanced budget amendment. The unbalanced budget amendment was approved by the fiscal court and by the Department for Local Government. The budget is out of balance by \$1,085,453 in the general fund.

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BOURBON COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2020

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BOURBON COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2020

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 856,877	\$ 1,711,182	\$	\$ 2,568,059
Buildings and Improvements	19,381,146			19,381,146
Vehicles and Equipment	1,798,107	172,671	42,042	1,928,736
Other Equipment	2,198,836	10,594	20,000	2,189,430
Infrastructure	10,242,336			10,242,336
 Total Capital Assets	 \$ 34,477,302	 \$ 1,894,447	 \$ 62,042	 \$ 36,309,707

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

June 30, 2020

Note 1. Capital Assets

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

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

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael Williams, Bourbon County Judge/Executive
Members of the Bourbon 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 Bourbon County Fiscal Court for the fiscal year ended June 30, 2020, and the related notes to the financial statement which collectively comprise the Bourbon County Fiscal Court's financial statement and have issued our report thereon dated January 25, 2022.

Internal Control Over Financial Reporting

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

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

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



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 Bourbon 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* in the accompanying Schedule of Findings and Responses as items 2020-001 and 2020-002.

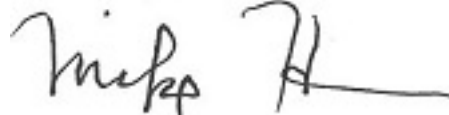
Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

January 25, 2022

**BOURBON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2020

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**BOURBON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2020

FINANCIAL STATEMENT FINDINGS:

2020-001 The Bourbon County Fiscal Court Did Not Have Adequate Controls Over Disbursements

During testing of disbursements, auditors noted 15 out of 46 tested invoices were paid without a purchase order being prepared. These invoices were noted in the general fund and road fund. The fiscal court lacks strong internal controls and oversight with regard to the purchase order process, properly documenting purchases, and following the procedures as established by the Department for Local Government. The lack of internal controls and oversight led to disbursements where funds were encumbered without ensuring that budget appropriation was available and that county officials authorized the purchase. This is neither compliant with purchasing requirements for counties per the Department for Local Government, nor an effective implementation of internal controls. This could lead to financial strain on the county due to overspending budgets or making financial decision without adequate information.

KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. *The County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for handling of public funds, including required purchasing procedures for counties. These requirements prescribe that (1) purchases shall not be made without approval by the judge/executive (or designee) and/or department head and (2) purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made. Furthermore, per the Department for Local Government budget manual, purchase order systems are required for fiscal courts and should be issued for all goods and services utilized by the fiscal court. This allows for fiscal court to ensure that sufficient budget allocation is available for all expenses and provides a better representation of financial status by reflecting accurate encumbrances.

We recommend the Bourbon County Fiscal Court ensure that purchase orders are obtained prior to all purchases.

County Judge/Executive's Response: We will be more diligent in issuing purchase orders.

2020-002 The Bourbon County Fiscal Court Has Not Accounted For Debt Payments Made By The Administrative Office Of The Courts On Their Behalf

In 2000, the Bourbon County, Kentucky, Public Properties Corporation (PPC) issued bonds to build a new judicial center in Bourbon County and in 2006, the PPC issued bonds to refinance the 2000 bonds. This financial activity was accounted for on the financial statements of the PPC and was included in the audit report under the PPC column. In April 2016, the Bourbon County Fiscal Court entered into a lease agreement to refinance to the 2006 PPC bonds to realize a cost savings to the county. This refinance put the lease in Bourbon County Fiscal Court's name with lease payments due to the lessor, and limited the county's payment liability and resultant debt to only those amounts paid by the county's sublessee. Bourbon County Fiscal Court concurrently subleased this building to AOC with AOC making the lease payments directly to the lessor. These sublease payments and payments to the lessor were not recorded in the county's ledgers or shown on the county's financial statement. Also the refinance was not included in the liabilities section of the quarterly.

The Bourbon County Fiscal Court did not consider the refinancing agreement to be debt of the county due to AOC making the payments on their behalf and the activity was not included in the financial statements or on Part 4 of the quarterly report.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-002 The Bourbon County Fiscal Court Has Not Accounted For Debt Payments Made By The Administrative Office Of The Courts On Their Behalf (Continued)

By not including all debt in the county's ledgers, the financial statements do not show the full financial activity of the county. To correct this, adjustments to the county's ledgers were required for the passage of lease payments of \$381,060 (\$364,617 principal, and \$16,443 interest).

The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual's* uniform system of accounts requires all county revenue to be accounted for in the county's cash receipts journal, cash receipts ledger, and quarterly financial statement, as well as requires the treasurer to maintain a liabilities schedule that is to be submitted as part of the quarterly financial statement. Even where funds are remitted directly to a lessor (bank) by a sublessee (AOC), those are funds paid on behalf of the county for a lease where the county is the named leaseholder and the county is textually responsible for the payment of the debt to the extent that payments are made by the sublessee. Additionally, the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* provides requirements and guidance for county government's preparation and presentation of the financial statement and budget. Page 48 of the manual states, "[a]ll borrowed money received and repaid must be reflected in the county budget." Prior DLG trainings have stated that all borrowed money, which includes bond and leases should be reflected in the county budget.

We recommend Bourbon County Fiscal Court present all financial activity in the county's financial statement as required by the regulatory basis of accounting, including activity where payments are made on behalf of the county, and present all debt of the county in Part 4 of the quarterly report as required per the DLG manual. In addition to complying with the Department for Local Government's financial statement presentation requirements, this will also ensure all debt is properly budgeted and included in the county's ledgers as needed.

County Judge/Executive's Response: Bourbon County Fiscal Court will present a budget amendment to add the debt payment made by the Administrative Office of the Courts for FY 2021-22.

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

BOURBON COUNTY FISCAL COURT

For The Year Ended June 30, 2020

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
BOURBON COUNTY FISCAL COURT

For The Year Ended June 30, 2020

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

A handwritten signature in blue ink, reading "Michael R. Williams", written over a horizontal line.

County Judge/Executive

A handwritten signature in blue ink, reading "Dana H. Boone", written over a horizontal line.

County Treasurer