

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

**For The Year Ended
June 30, 2017**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

The enclosed report prepared by Teddy Michael Prater CPA, PLLC presents the financial statement of Nicholas County, Kentucky, for the year ended June 30, 2017.

We engaged Teddy Michael Prater CPA, PLLC to perform the audit of this financial statement. We worked closely with the firm during our report review process; Teddy Michael Prater CPA, PLLC evaluated the Nicholas County Fiscal Court's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

Enclosure



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To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
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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, 2017, 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, 2017, 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, 2017, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Nicholas County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule 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 and Capital Asset Schedule 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 and the Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky
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Members of the Nicholas County Fiscal Court

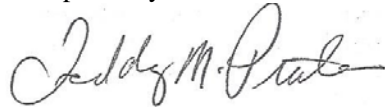
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2018, on our consideration of the Nicholas County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nicholas County Fiscal Court's internal control over financial reporting and compliance.

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

2017-001 The Fiscal Court Did Not Budget And Record The Purchase Of Ambulance Equipment

Respectfully submitted,



Teddy Michael Prater CPA, PLLC

February 28, 2018

NICHOLAS COUNTY OFFICIALS

For The Year Ended June 30, 2017

Fiscal Court Members:

| | |
|----------------|------------------------|
| Mike Pryor | County Judge/Executive |
| Jeff Randolph | Magistrate |
| Mike Webb | Magistrate |
| Steve Hamilton | Magistrate |
| Matt Hughes | Magistrate |
| Kenny Holbrook | Magistrate |

Other Elected Officials:

| | |
|-------------------|----------------------------------|
| Dawn Letcher | County Attorney |
| Darren Robinson | Jailer |
| Martha Moss | County Clerk |
| Sandy Watkins | Circuit Court Clerk |
| Jeff Sidles | Sheriff |
| Michelle McDonald | Property Valuation Administrator |
| Kevin Hatchett | Coroner |

Appointed Personnel:

| | |
|--------------|--|
| Julie Watson | County Treasurer |
| Dana Price | Occupational Tax Administrator/ Finance Officer |

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

For The Year Ended June 30, 2017

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

For The Year Ended June 30, 2017

| | Budgeted Funds | | |
|--|-------------------------|----------------------|----------------------|
| | General Fund | Road Fund | Jail Fund |
| RECEIPTS | | | |
| Taxes | \$ 741,088 | \$ | \$ |
| Excess Fees | 44,637 | | |
| Licenses and Permits | 6,254 | | |
| Intergovernmental | 95,415 | 1,121,154 | 79,885 |
| Charges for Services | 361,129 | 3,275 | 17,605 |
| Miscellaneous | 363,775 | 46,776 | 632 |
| Interest | 2,062 | 2,347 | 132 |
| Total Receipts | <u>1,614,360</u> | <u>1,173,552</u> | <u>98,254</u> |
| DISBURSEMENTS | | | |
| General Government | 601,244 | 18,000 | |
| Protection to Persons and Property | 630,938 | | 178,088 |
| General Health and Sanitation | 23,062 | | |
| Social Services | 44,874 | | |
| Recreation and Culture | 19,320 | | |
| Roads | | 810,083 | |
| Debt Service | 21,566 | 18,804 | |
| Administration | 397,903 | 251,932 | 14,058 |
| Total Disbursements | <u>1,738,907</u> | <u>1,098,819</u> | <u>192,146</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | <u>(124,547)</u> | <u>74,733</u> | <u>(93,892)</u> |
| Other Adjustments to Cash (Uses) | | | |
| Change in Payroll Revolving Account | (12,951) | | |
| Gain on Sale of Investments | | | |
| Financing Obligation Proceeds | 77,194 | | |
| Transfers From Other Funds | 122,370 | | 97,000 |
| Transfers To Other Funds | (149,500) | (100,000) | |
| Total Other Adjustments to Cash (Uses) | <u>37,113</u> | <u>(100,000)</u> | <u>97,000</u> |
| Net Change in Fund Balance | (87,434) | (25,267) | 3,108 |
| Fund Balance - Beginning (Restated) | 257,493 | 137,201 | 3,516 |
| Fund Balance - Ending | <u>\$ 170,059</u> | <u>\$ 111,934</u> | <u>\$ 6,624</u> |
| Composition of Fund Balance | | | |
| Bank Balance | \$ 41,634 | \$ 111,934 | \$ 6,624 |
| Payroll Revolving Account Reconciled Balance | 19,462 | | |
| Less: Outstanding Checks | (5,484) | | |
| Certificates of Deposit | 114,447 | | |
| Investments | | | |
| Fund Balance - Ending | <u>\$ 170,059</u> | <u>\$ 111,934</u> | <u>\$ 6,624</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, 2017
 (Continued)

| Budgeted Funds | | | Private Purpose Trust Funds | | Total Funds |
|------------------|----------------------------|--------------------------------|-----------------------------------|---|----------------|
| Landfill Fund | Phase I Tobacco Fund | Mathers Educational Fund | Knox Hospital Trust Fund | Mathers Educational Trust Fund | |
| \$ | \$ | \$ | \$ | \$ | \$ 741,088 |
| | | | | | 44,637 |
| | | | | | 6,254 |
| | 277,317 | | | | 1,573,771 |
| 65,943 | | | | | 447,952 |
| 2,624 | | 2,645 | | | 416,452 |
| 65 | 1,867 | 1,931 | 11,019 | 75,738 | 95,161 |
| 68,632 | 279,184 | 4,576 | 11,019 | 75,738 | 3,325,315 |
| | | | | | 619,244 |
| | | | | | 809,026 |
| 114,232 | | | | | 137,294 |
| | | 35,384 | | | 80,258 |
| | | | | | 19,320 |
| | | | | | 810,083 |
| | | | | | 40,370 |
| 9,439 | 304,659 | 1,793 | 2,971 | 14,646 | 997,401 |
| 123,671 | 304,659 | 37,177 | 2,971 | 14,646 | 3,512,996 |
| (55,039) | (25,475) | (32,601) | 8,048 | 61,092 | (187,681) |
| | | | | | (12,951) |
| | | | 13,376 | 45,932 | 59,308 |
| | | | | | 77,194 |
| 52,500 | | 132,300 | | | 404,170 |
| | | | (22,370) | (132,300) | (404,170) |
| 52,500 | | 132,300 | (8,994) | (86,368) | 123,551 |
| (2,539) | (25,475) | 99,699 | (946) | (25,276) | (64,130) |
| 6,515 | 81,481 | 130,660 | 358,285 | 2,467,776 | 3,442,927 |
| \$ 3,976 | \$ 56,006 | \$ 230,359 | \$ 357,339 | \$ 2,442,500 | \$ 3,378,797 |
| \$ 3,988 | \$ 62,006 | \$ 230,359 | \$ | \$ | \$ 456,545 |
| | | | | | 19,462 |
| (12) | (6,000) | | | | (11,496) |
| | | | | | 114,447 |
| | | | 357,339 | 2,442,500 | 2,799,839 |
| \$ 3,976 | \$ 56,006 | \$ 230,359 | \$ 357,339 | \$ 2,442,500 | \$ 3,378,797 |

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

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**NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2017

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.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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.

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

Phase I Tobacco Fund - The purpose of this fund is to account for the distribution of subsidy resources from the state for qualifying farmers of tobacco funds. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Mathers Educational 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 Funds

The fiscal court reports the following unbudgeted 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.

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.

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.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Nicholas County Elected Officials

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

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

Note 2. Deposits and Investments

A. Deposits

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

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(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 fiscal court's deposits may not be returned. The fiscal court does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

As of June 30, 2017, the fiscal court's private purpose trust funds had the following types of investments:

| Type of Investment | Carrying Amount | Market Value | Concentration |
|-------------------------|---------------------|---------------------|---------------|
| Cash Equivalents | \$ 40,362 | \$ 40,362 | 0.01 |
| Fixed Income Securities | 1,198,112 | 1,257,427 | 0.43 |
| Equities | 1,561,365 | 2,007,699 | 0.56 |
| Totals | <u>\$ 2,799,839</u> | <u>\$ 3,305,488</u> | <u>1.00</u> |

As of June 30, 2017, the private purpose trust funds had the following carrying amounts:

| Cash and Investment Summary | Current Cash And Investments |
|--------------------------------|---------------------------------|
| Knox Hospital Trust Fund | \$ 357,339 |
| Mathers Educational Trust Fund | <u>2,442,500</u> |
| Total | <u>\$ 2,799,839</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 does not have an investment policy for custodial credit risk. As of June 30, 2017, the fiscal court's investments, held in the private purpose trust funds, were held by the fiscal court's agent in the fiscal court's name.

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 defines the following items as permissible investments:

- 1) Obligations of the United States and of its agencies and instrumentalities.
- 2) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
- 3) Obligations of any corporation of the United States Government.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

- 4) 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 or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240.
- 5) Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by nationally recognized rating agency.
- 6) Bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.
- 7) Commercial paper rated in the highest category by a nationally recognized 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 nationally recognized rating agency.
- 10) Shares of mutual funds, each of which shall have the following characteristics:
 - a) The mutual funds shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended.
 - b) The management company of the investment company shall have been in operation for at least five years.
 - c) All of the securities in the mutual fund shall be eligible investments pursuant to this section.

The fiscal court is limited to investing no more than 20 percent in categories 5, 6, 7, and 9 above per state statute. As of June 30, 2017, the fiscal court has investments of less than 20 percent in these categories.

The fiscal court does not have an investment policy that would further limit its investment choices. All investments of the fiscal court are reported in the private purpose trust funds and are maintained by third-party trustees bound by legal restrictions established by the trusts.

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 does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

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

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2017.

| | General Fund | Road Fund | Knox Hospital Trust Fund | Mathers Educational Trust Fund | Total Transfers In |
|--------------------------|-------------------|-------------------|-----------------------------|--------------------------------------|-----------------------|
| General Fund | \$ 97,000 | \$ 100,000 | \$ 22,370 | \$ | \$ 122,370 |
| Jail Fund | 97,000 | | | | 97,000 |
| Landfill Fund | 52,500 | | | | 52,500 |
| Mathers Educational Fund | | | | 132,300 | 132,300 |
| Total Transfers Out | <u>\$ 149,500</u> | <u>\$ 100,000</u> | <u>\$ 22,370</u> | <u>\$ 132,300</u> | <u>\$ 404,170</u> |

Reason for transfers:

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

Note 4. Private Purpose Trust Funds

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

The fiscal court has the following private purpose trust funds:

Knox Hospital Trust Fund - This fund was established to promote the general health and welfare of the people of Nicholas County, especially for the employment of a health nurse. The trust fund reports resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the county's programs. The trust fund is maintained by a third-party trustee who determines the investment portfolio of the fund and accounts for the investment earnings. The balance in the Knox Hospital Trust Fund as of June 30, 2017, was \$357,339.

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, 2017, was \$2,442,500.

Note 5. Accounts Receivable

At June 30, 2017, the Nicholas County Fiscal Court had receivables, in the amount of \$108,919, due for ambulance services.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 6. Long-term Debt

A. Financing Program Revenue Bonds, Series 2013

On May 22, 2013, \$135,000 of Kentucky Association of Counties Finance Corporation Financing Program Revenue Bonds, Series 2013, was issued 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 outstanding balance as of June 30, 2017, was \$105,834. Future principal and interest requirements are:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|-------------------|------------------|
| 2018 | \$ 10,000 | \$ 3,289 |
| 2019 | 10,000 | 3,064 |
| 2020 | 10,000 | 2,839 |
| 2021 | 10,000 | 2,614 |
| 2022 | 10,000 | 2,378 |
| 2023-2027 | 50,000 | 7,860 |
| 2028 | 5,834 | 459 |
| Totals | <u>\$ 105,834</u> | <u>\$ 22,503</u> |

B. Financing Obligation - Dump Truck

On June 5, 2015, the Nicholas County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program, in the amount of \$14,325, for a dump truck to be paid in full on June 20, 2018. The agreement requires fixed monthly payments for 36 months with an interest rate of 3.25 percent. The lease balance as of June 30, 2017, was \$4,937. Future principal and interest requirements are:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|-----------------|--------------|
| 2018 | \$ 4,937 | \$ 87 |
| | <u>\$ 4,937</u> | <u>\$ 87</u> |

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 6. Long-term Debt (Continued)

C. Financing Obligation - Sheriff's Vehicle

In June 2016, the Nicholas County Fiscal Court entered into a \$29,099 lease agreement for the purchase of a sheriff's vehicle. The agreement requires 48 monthly payments of \$671, beginning June 1, 2016, and ending May 1, 2020. The lease balance as of June 30, 2017, was \$21,719. Future principal and interest requirements are:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|------------------|-----------------|
| 2018 | \$ 7,073 | \$ 979 |
| 2019 | 7,456 | 596 |
| 2020 | 7,190 | 191 |
| | <u>\$ 21,719</u> | <u>\$ 1,766</u> |

D. 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. The lease balance as of June 30, 2017, was \$77,194. Future principal and interest requirements are:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|------------------|-----------------|
| 2018 | \$ 14,603 | \$ 2,150 |
| 2019 | 15,009 | 1,743 |
| 2020 | 15,427 | 1,325 |
| 2021 | 15,857 | 895 |
| 2022 | 16,298 | 454 |
| | <u>\$ 77,194</u> | <u>\$ 6,567</u> |

E. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2017, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-----------------------|----------------------|------------------|------------------|-------------------|------------------------|
| Revenue Bonds | \$ 115,834 | \$ | \$ 10,000 | \$ 105,834 | \$ 10,000 |
| Financing Obligations | 51,779 | 77,194 | 25,123 | 103,850 | 26,613 |
| Total Long-term Debt | <u>\$ 167,613</u> | <u>\$ 77,194</u> | <u>\$ 35,123</u> | <u>\$ 209,684</u> | <u>\$ 36,613</u> |

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 7. Commitments and Contingencies

The county is involved in multiple lawsuits that arose from the normal course of doing business. 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 8. 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 2015 was \$175,493, FY 2016 was \$162,743, and FY 2017 was \$163,764.

Nonhazardous

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one 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 five percent of their annual creditable compensation. Nonhazardous members also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the 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 four 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 18.68 percent.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 8. Employee Retirement System (Continued)

Health Insurance Coverage

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

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

| 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, nonhazardous 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.

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 a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/Employers/Resources/Pages/GASB.aspx>. 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 9. Deferred Compensation

The Nicholas County Fiscal Court allows 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 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 10. Insurance

For the fiscal year ended June 30, 2017, 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 11. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2017, was added to the general fund cash balance for financial reporting purposes.

Note 12. Prior Period Adjustments

The beginning balances of the general, road, and jail funds were increased by \$723, \$272, and \$513, respectively, to account for prior year voided checks.

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

For The Year Ended June 30, 2017

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NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

| | GENERAL FUND | | | |
|--|-------------------------|--------------------|---|---|
| | Budgeted Amounts | | Actual | Variance with |
| | Original | Final | Amounts, (Budgetary Basis) | Final Budget Positive (Negative) |
| RECEIPTS | | | | |
| Taxes | \$ 630,000 | \$ 639,594 | \$ 741,088 | \$ 101,494 |
| Excess Fees | | 44,637 | 44,637 | |
| Licenses and Permits | 6,050 | 6,065 | 6,254 | 189 |
| Intergovernmental | 87,070 | 87,260 | 95,415 | 8,155 |
| Charges for Services | 70,175 | 70,721 | 361,129 | 290,408 |
| Miscellaneous | 619,674 | 644,540 | 363,775 | (280,765) |
| Interest | 2,600 | 2,600 | 2,062 | (538) |
| Total Receipts | <u>1,415,569</u> | <u>1,495,417</u> | <u>1,614,360</u> | <u>118,943</u> |
| DISBURSEMENTS | | | | |
| General Government | 469,800 | 631,999 | 601,244 | 30,755 |
| Protection to Persons and Property | 469,609 | 559,375 | 630,938 | (71,563) |
| General Health and Sanitation | 26,225 | 26,185 | 23,062 | 3,123 |
| Social Services | 54,000 | 54,000 | 44,874 | 9,126 |
| Recreation and Culture | 21,320 | 21,320 | 19,320 | 2,000 |
| Debt Service | 60,000 | 23,439 | 21,566 | 1,873 |
| Administration | 453,492 | 403,402 | 397,903 | 5,499 |
| Total Disbursements | <u>1,554,446</u> | <u>1,719,720</u> | <u>1,738,907</u> | <u>(19,187)</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | <u>(138,877)</u> | <u>(224,303)</u> | <u>(124,547)</u> | <u>99,756</u> |
| Other Adjustments to Cash (Uses) | | | | |
| Financing Obligation Proceeds | | | 77,194 | 77,194 |
| Transfers From Other Funds | 110,000 | 112,519 | 122,370 | 9,851 |
| Transfers To Other Funds | (221,123) | (221,123) | (149,500) | 71,623 |
| Total Other Adjustments to Cash (Uses) | <u>(111,123)</u> | <u>(108,604)</u> | <u>50,064</u> | <u>158,668</u> |
| Net Change in Fund Balance | (250,000) | (332,907) | (74,483) | 258,424 |
| Fund Balance - Beginning (Restated) | <u>250,000</u> | <u>250,000</u> | <u>225,080</u> | <u>(24,920)</u> |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ (82,907)</u> | <u>\$ 150,597</u> | <u>\$ 233,504</u> |

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

| | ROAD FUND | | | |
|--|------------------|------------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| RECEIPTS | | | | |
| Intergovernmental | \$ 854,259 | \$ 1,121,164 | \$ 1,121,154 | \$ (10) |
| Charges for Services | 1,000 | 2,754 | 3,275 | 521 |
| Miscellaneous | 18,000 | 33,534 | 46,776 | 13,242 |
| Interest | 1,400 | 1,400 | 2,347 | 947 |
| Total Receipts | <u>874,659</u> | <u>1,158,852</u> | <u>1,173,552</u> | <u>14,700</u> |
| DISBURSEMENTS | | | | |
| General Government | 18,000 | 18,000 | 18,000 | |
| Roads | 549,500 | 820,915 | 810,083 | 10,832 |
| Debt Service | 30,000 | 18,804 | 18,804 | |
| Administration | 292,159 | 255,155 | 251,932 | 3,223 |
| Total Disbursements | <u>889,659</u> | <u>1,112,874</u> | <u>1,098,819</u> | <u>14,055</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | <u>(15,000)</u> | <u>45,978</u> | <u>74,733</u> | <u>28,755</u> |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers To Other Funds | <u>(100,000)</u> | <u>(100,000)</u> | <u>(100,000)</u> | |
| Total Other Adjustments to Cash (Uses) | <u>(100,000)</u> | <u>(100,000)</u> | <u>(100,000)</u> | |
| Net Change in Fund Balance | (115,000) | (54,022) | (25,267) | 28,755 |
| Fund Balance - Beginning (Restated) | <u>115,000</u> | <u>136,929</u> | <u>137,201</u> | <u>272</u> |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 82,907</u> | <u>\$ 111,934</u> | <u>\$ 29,027</u> |

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

| | JAIL FUND | | | |
|--|------------------|------------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| RECEIPTS | | | | |
| Intergovernmental | \$ 70,600 | \$ 73,901 | \$ 79,885 | \$ 5,984 |
| Charges for Services | 10,300 | 12,465 | 17,605 | 5,140 |
| Miscellaneous | | 183 | 632 | 449 |
| Interest | 60 | 94 | 132 | 38 |
| Total Receipts | <u>80,960</u> | <u>86,643</u> | <u>98,254</u> | <u>11,611</u> |
| DISBURSEMENTS | | | | |
| Protection to Persons and Property | 220,213 | 220,213 | 178,088 | 42,125 |
| Administration | 12,900 | 20,084 | 14,058 | 6,026 |
| Total Disbursements | <u>233,113</u> | <u>240,297</u> | <u>192,146</u> | <u>48,151</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | <u>(152,153)</u> | <u>(153,654)</u> | <u>(93,892)</u> | <u>59,762</u> |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers From Other Funds | <u>150,653</u> | <u>150,653</u> | <u>97,000</u> | <u>(53,653)</u> |
| Total Other Adjustments to Cash (Uses) | <u>150,653</u> | <u>150,653</u> | <u>97,000</u> | <u>(53,653)</u> |
| Net Change in Fund Balance | (1,500) | (3,001) | 3,108 | 6,109 |
| Fund Balance - Beginning (Restated) | <u>1,500</u> | <u>3,001</u> | <u>3,516</u> | <u>515</u> |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 6,624</u> | <u>\$ 6,624</u> |

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

| | LANDFILL FUND | | | |
|--|-------------------------|-----------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| RECEIPTS | | | | |
| Charges for Services | \$ 55,000 | \$ 55,000 | \$ 65,943 | \$ 10,943 |
| Miscellaneous | 1,000 | 1,348 | 2,624 | 1,276 |
| Interest | 30 | 30 | 65 | 35 |
| Total Receipts | <u>56,030</u> | <u>56,378</u> | <u>68,632</u> | <u>12,254</u> |
| DISBURSEMENTS | | | | |
| General Health and Sanitation | 115,000 | 119,554 | 114,232 | 5,322 |
| Administration | 14,500 | 13,809 | 9,439 | 4,370 |
| Total Disbursements | <u>129,500</u> | <u>133,363</u> | <u>123,671</u> | <u>9,692</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | <u>(73,470)</u> | <u>(76,985)</u> | <u>(55,039)</u> | <u>21,946</u> |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers From Other Funds | <u>70,470</u> | <u>70,470</u> | <u>52,500</u> | <u>(17,970)</u> |
| Total Other Adjustments to Cash (Uses) | <u>70,470</u> | <u>70,470</u> | <u>52,500</u> | <u>(17,970)</u> |
| Net Change in Fund Balance | (3,000) | (6,515) | (2,539) | 3,976 |
| Fund Balance - Beginning | <u>3,000</u> | <u>6,515</u> | <u>6,515</u> | <u></u> |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 3,976</u> | <u>\$ 3,976</u> |

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

| PHASE I TOBACCO FUND | | | | |
|--|-------------------------|-----------------|--|---|
| | <u>Budgeted Amounts</u> | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | <u>Original</u> | <u>Final</u> | | |
| RECEIPTS | | | | |
| Intergovernmental | \$ 210,000 | \$ 277,317 | \$ 277,317 | \$ |
| Interest | 1,000 | 1,139 | 1,867 | 728 |
| Total Receipts | <u>211,000</u> | <u>278,456</u> | <u>279,184</u> | <u>728</u> |
| DISBURSEMENTS | | | | |
| Administration | <u>211,000</u> | <u>359,937</u> | <u>304,659</u> | <u>55,278</u> |
| Total Disbursements | <u>211,000</u> | <u>359,937</u> | <u>304,659</u> | <u>55,278</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | | <u>(81,481)</u> | <u>(25,475)</u> | <u>56,006</u> |
| Net Change in Fund Balance | | (81,481) | (25,475) | 56,006 |
| Fund Balance - Beginning | | <u>81,481</u> | <u>81,481</u> | |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 56,006</u> | <u>\$ 56,006</u> |

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

MATHERS EDUCATIONAL FUND

| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|------------------|-----------|--|---|
| | Original | Final | | |
| RECEIPTS | | | | |
| Miscellaneous | \$ | \$ | \$ 2,645 | \$ 2,645 |
| Interest | 600 | 937 | 1,931 | 994 |
| Total Receipts | 600 | 937 | 4,576 | 3,639 |
| DISBURSEMENTS | | | | |
| Social Services | 58,200 | 58,200 | 35,384 | 22,816 |
| Administration | 202,900 | 208,342 | 1,793 | 206,549 |
| Total Disbursements | 261,100 | 266,542 | 37,177 | 229,365 |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | (260,500) | (265,605) | (32,601) | 233,004 |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers From Other Funds | 130,000 | 134,945 | 132,300 | (2,645) |
| Total Other Adjustments to Cash (Uses) | 130,000 | 134,945 | 132,300 | (2,645) |
| Net Change in Fund Balance | (130,500) | (130,660) | 99,699 | 230,359 |
| Fund Balance - Beginning | 130,500 | 130,660 | 130,660 | |
| Fund Balance - Ending | \$ 0 | \$ 0 | \$ 230,359 | \$ 230,359 |

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

June 30, 2017

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. Reconciliation of the General Fund

| | |
|--|-------------------|
| Other Adjustments to Cash (Uses) - Budgetary Basis | \$ 50,064 |
| To adjust for change in Payroll Revolving Account | <u>(12,951)</u> |
| Total Other Adjustments to Cash (Uses) - Regulatory Basis | <u>\$ 37,113</u> |
| | |
| Fund Balance - Ending - Budgetary Basis | \$ 150,597 |
| To adjust for Payroll Revolving Account Reconciled Balance | <u>19,462</u> |
| Total Fund Balance - Ending - Regulatory Basis | <u>\$ 170,059</u> |

Note 3. Excess of Disbursements Over Appropriations

General fund protection to persons and property exceeded budgeted appropriations by \$71,563, and the general fund in total was overspent by \$19,187. This resulted from an unbudgeted lease purchase for ambulance equipment in the amount of \$ 77,194.

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NICHOLAS COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017

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NICHOLAS COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

The fiscal court reports the following Schedule of Capital Assets:

| | Beginning Balance | Additions | Transfers | Deletions | Ending Balance |
|----------------------------|-------------------------|-----------------------|-----------------|----------------------|--------------------------|
| Land and Land Improvements | \$ 264,121 | \$ | \$ | \$ | \$ 264,121 |
| Construction In Progress | 93,824 | | (93,824) | | |
| Buildings | 2,505,584 | | 93,824 | | 2,599,408 |
| Vehicles | 843,064 | | | 22,000 | 821,064 |
| Equipment | 767,133 | 80,000 | | | 847,133 |
| Infrastructure | 5,451,748 | 283,751 | | | 5,735,499 |
| Total Capital Assets | <u>\$ 9,925,474</u> | <u>\$ 363,751</u> | <u>\$ 0</u> | <u>\$ 22,000</u> | <u>\$ 10,267,225</u> |

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

June 30, 2017

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 | \$ 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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The Honorable Mike Pryor, 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, 2017, 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 February 28, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Nicholas County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2017-001.

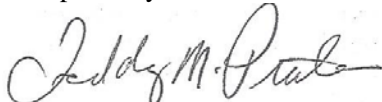
Views of Responsible Official and Planned Corrective Action

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,



Teddy Michael Prater CPA, PLLC

February 28, 2018

**NICHOLAS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

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**NICHOLAS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

STATE LAWS AND REGULATIONS:

2017-001 The Fiscal Court Did Not Budget And Record The Purchase Of Ambulance Equipment

The fiscal court did not amend their budget for the lease proceeds or the purchase of ambulance equipment.

Lease proceeds, in the amount of \$77,194, were paid directly to the vendor for the purchase, and were not included in the county financial statements as a budgeted disbursement for the fiscal year ended June 30, 2017. The audited financial statement and the general fund budgetary comparison schedule were adjusted to record the financing and purchase.

By not budgeting these items, the fiscal court exceeded budgeted appropriations for the “protection to persons and property” line item by \$71,563, and the general fund in total was overspent by \$19,187.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government’s *County Budget Preparation and State Local Finance Officer Policy Manual* states all borrowed money received and repaid must be reflected in the county budget. Amendments for unanticipated lease proceeds must appropriate 100 percent of the proceeds for the lease project.

We recommend the fiscal court budget and record all lease proceeds and any related purchases.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Future lease proceeds will be added as a budget amendment.