

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

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



**MIKE HARMON  
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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Dean Watts, Nelson County Judge/Executive  
Members of the Nelson 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 Nelson County Fiscal Court, for the year ended June 30, 2020, and the related notes to the financial statement which collectively comprise the Nelson 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 Nelson 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 Nelson County Fiscal Court as of June 30, 2020, or changes in financial position or cash flows thereof for the year then ended.

### **Basis for Qualified Opinion on Regulatory Basis of Accounting**

Nelson County's Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis, includes the receipts and disbursements of the jail commissary fund, which did not maintain adequate accounting records, deposit all receipts, or properly account for all receipts. Since the jail commissary fund accounting records were not adequate and all receipts were not deposited or accounted for, the financial information presented for the receipts, disbursements, and fund balance of the Nelson County Jail Commissary Fund cannot be determined to be reasonably accurate.

### **Qualified Opinion on Regulatory Basis of Accounting**

In our opinion, except for the effects of the matters discussed in the "Basis for Qualified Opinion on Regulatory Basis of Accounting" paragraph, the financial statement referred to above presents fairly, in all material respects, the fund balances of Nelson County, Kentucky as of June 30, 2020, and its cash receipts and disbursements, for the year then ended, in accordance with the 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 Nelson 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.

To the People of Kentucky  
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**Other Matters (Continued)**

*Supplementary and Other Information (Continued)*

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2021, on our consideration of the Nelson 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 Nelson 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, which discusses the following report findings:

- 2020-001 The Nelson County Fiscal Court Did Not Follow The Uniform System Of Accounts When Preparing Their Original Budget
- 2020-002 The Nelson County Fiscal Court Did Not Have Written Collateral Security Agreements With Two Banks, Resulting In \$2,133,161 Deposits Being Unsecured At Year-End
- 2020-003 The Nelson County Jail Did Not Have Segregation of Duties Over The Jail Commissary Fund
- 2020-004 The Nelson County Jail Did Not Properly Account For Daily Receipts Or Prepare Required Annual Financial Report For The Jail Commissary Account Resulting In A Qualified Opinion On The Financial Statement
- 2020-005 The Jailer Failed To Properly Implement Controls Over The Inmate Trust Account

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

February 4, 2021

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

Dean Watts	County Judge/Executive
Keith Metcalfe	Magistrate
Gary Coulter	Magistrate
Bernard Ice	Magistrate
Jeff Lear	Magistrate
Eric Shelburne	Magistrate

**Other Elected Officials:**

Matthew Hite	County Attorney
John Snellen	Jailer
Jeanette Sidebottom	County Clerk
Diane Thompson	Circuit Court Clerk
Ramon Pineiroa	Sheriff
Barbara Tichenor	Property Valuation Administrator
Rayfield Houghlin	Coroner

**Appointed Personnel:**

Rhonda Fenwick	County Treasurer
Teresa Blandford	Occupational Tax Administrator
Carole Bryan	Personnel/Payroll Officer
Lee Mattingly	Assistant Road Supervisor
Other Key Personnel	Brad Spalding, County Engineer
	John Greenwell, Landfill Manager
	Joe Prewitt, EMS Director
	Wanda Ward, EMS Fiscal Officer



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

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

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

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

	<b>Budgeted Funds</b>			
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>
<b>RECEIPTS</b>				
Taxes	\$ 6,990,680	\$	\$	\$
Excess Fees	628,292			
Licenses and Permits	613,809			
Intergovernmental	477,177	2,324,031	683,379	256,585
Charges for Services	22,924		87,095	
Miscellaneous	846,196	3,256	83,085	
Interest	1,973			
Total Receipts	<u>9,581,051</u>	<u>2,327,287</u>	<u>853,559</u>	<u>256,585</u>
<b>DISBURSEMENTS</b>				
General Government	1,478,480			
Protection to Persons and Property	2,535,769		1,721,717	
General Health and Sanitation	959,833			
Social Services	151,159			
Recreation and Culture	406,438			
Roads	59,495	2,948,008		133,824
Airports				
Bus Services	143,652			
Debt Service				
Capital Projects	15,475			
Administration	2,375,692	486,979	420,899	
Total Disbursements	<u>8,125,993</u>	<u>3,434,987</u>	<u>2,142,616</u>	<u>133,824</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,455,058</u>	<u>(1,107,700)</u>	<u>(1,289,057)</u>	<u>122,761</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	250,000	875,000	1,289,057	
Transfers To Other Funds	<u>(1,783,518)</u>			<u>(200,000)</u>
Total Other Adjustments to Cash (Uses)	<u>(1,533,518)</u>	<u>875,000</u>	<u>1,289,057</u>	<u>(200,000)</u>
Net Change in Fund Balance	(78,460)	(232,700)		(77,239)
Fund Balance - Beginning	<u>1,680,399</u>	<u>429,706</u>		<u>220,190</u>
Fund Balance - Ending	<u>\$ 1,601,939</u>	<u>\$ 197,006</u>	<u>\$ 0</u>	<u>\$ 142,951</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 1,645,346	\$ 197,006	\$	\$ 142,951
Less: Outstanding Checks	(43,407)			
Certificates of Deposit				
Fund Balance - Ending	<u>\$ 1,601,939</u>	<u>\$ 197,006</u>	<u>\$ 0</u>	<u>\$ 142,951</u>

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

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

<u>Budgeted Funds</u>				<u>Unbudgeted Fund</u>	
<u>Emergency Medical Services Fund</u>	<u>Solid Waste Fund</u>	<u>Landfill Fund</u>	<u>Occupational License Fee Fund</u>	<u>Public Improvements Corporation Fund</u>	<u>Total Funds</u>
\$	\$	\$	\$ 1,359,520	\$	\$ 8,350,200
					628,292
					613,809
83,011	59,312	4,000			3,887,495
2,097,067	2,267,141	3,058,110			7,532,337
11,847	10,914	56,723		940,526	1,952,547
		35,206			37,179
<u>2,191,925</u>	<u>2,337,367</u>	<u>3,154,039</u>	<u>1,359,520</u>	<u>940,526</u>	<u>23,001,859</u>
			156,384	9,521	1,644,385
2,427,550					6,685,036
	1,724,268	2,001,284			4,685,385
			7,098		158,257
					406,438
					3,141,327
			17,200		17,200
					143,652
				1,007,604	1,007,604
				7,731	23,206
844,079	423,383	447,519	17,635		5,016,186
<u>3,271,629</u>	<u>2,147,651</u>	<u>2,448,803</u>	<u>198,317</u>	<u>1,024,856</u>	<u>22,928,676</u>
(1,079,704)	189,716	705,236	1,161,203	(84,330)	73,183
1,075,000		190,017		74,444	3,753,518
	(115,000)	(288,000)	(1,367,000)		(3,753,518)
<u>1,075,000</u>	<u>(115,000)</u>	<u>(97,983)</u>	<u>(1,367,000)</u>	<u>74,444</u>	
(4,704)	74,716	607,253	(205,797)	(9,886)	73,183
62,362	358,961	6,318,653	430,505	64,226	9,565,002
<u>\$ 57,658</u>	<u>\$ 433,677</u>	<u>\$ 6,925,906</u>	<u>\$ 224,708</u>	<u>\$ 54,340</u>	<u>\$ 9,638,185</u>
\$ 57,658	\$ 433,677	\$ 2,994,728	\$ 224,708	\$ 54,340	\$ 5,750,414
		(32,189)			(75,596)
		3,963,367			3,963,367
<u>\$ 57,658</u>	<u>\$ 433,677</u>	<u>\$ 6,925,906</u>	<u>\$ 224,708</u>	<u>\$ 54,340</u>	<u>\$ 9,638,185</u>

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

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**NELSON COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2020**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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

**NELSON 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.

Emergency Medical Services Fund - The primary purpose of this fund is to account for the receipts and disbursements in providing ambulance services to the public. The primary source of receipts for this fund is patient fees.

Solid Waste Fund - The primary purpose of this fund is to account for the activities of the solid waste collection services outside the incorporated city boundaries for county residents, and dead animal removal for commercial entities and the public. The primary source of receipts for this fund is garbage collection fees.

Landfill Fund - The primary purpose of this fund is to account for the operation of the landfill and roll-off container collection services. The primary source of receipts for this fund is landfill disposal fees.

Occupational License Fee Fund - The primary purpose of this fund is to account for all activity under the Occupational License Fee Ordinance, effective January 1, 1991. The maximum fee paid by any individual, partner, shareholder, or regular corporation is \$75 per year. Disbursements provide support for emergency services, additional funding for road maintenance, and economic development. The primary purpose of this fund is to account for the dispatch expenses of the county. The primary source of receipts for this fund is the 911 telephone surcharge.

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

Public Improvements Corporation Fund - The primary purpose of this fund is to account for the leasing, maintenance, and debt service on various county properties leased to commercial entities, other governmental agencies, and the public. This fund accounts for the activity of both the Nelson County Public Properties Corporation and the Nelson County Public Improvements Corporation. The primary source of receipts is rental income. The Department for Local Government does not require the fiscal court to budget this fund.

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

**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.

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

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Budgetary Information (Continued)**

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

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

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

The state local finance officer does not require the public improvements corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually. However, the Nelson County Fiscal court includes the fund in the annual budget.

**E. Nelson County Elected Officials**

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

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

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

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

**H. Related Obligations and Joint Ventures**

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

Nelson County Cooperative Extension  
 Nelson County Health Department  
 Nelson County Public Library  
 Nelson County Soil Conservation  
 North Nelson Water District

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

Bardstown - Nelson County Airport Board  
 Bardstown - Nelson Tourism  
 Joint City - County Planning Commission of Nelson County

**Note 2. 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 not met, as the fiscal court did not have written agreements with two banks.

**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 fiscal court 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*. On June 30, 2020, the fiscal court's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured                      \$2,133,161



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

**Note 3. Transfers**

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

	General Fund	LGEA Fund	Soild Waste Fund	Landfill Fund	Occupational License Fee Fund	Total Transfers In
General Fund	\$	\$	\$ 50,000	\$ 200,000	\$	\$ 250,000
Road Fund		200,000	65,000		610,000	875,000
Jail Fund	1,289,057					1,289,057
Landfill Fund	190,017					190,017
Public Improvements Corporation Fund	74,444					74,444
Emergency Medical Services Fund	230,000			88,000	757,000	1,075,000
Total Transfers Out	<u>\$ 1,783,518</u>	<u>\$ 200,000</u>	<u>\$ 115,000</u>	<u>\$ 288,000</u>	<u>\$ 1,367,000</u>	<u>\$ 3,753,518</u>

Reason for transfers:

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

**Note 4. Custodial Funds**

Custodial funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. In accordance with the regulatory basis of accounting, custodial funds are not presented on the financial statement.

The fiscal court has the following custodial fund:

Encroachment Fund - This fund accounts for funds received for encroachment permits administered by the county. The funds are held in an escrow account. The balance in the encroachment fund as of June 30, 2020, was \$53,500.

**Note 5. Land Held For Resale**

In July 2004, the Nelson County Fiscal Court purchased 424 acres to develop Nelson County Industrial Park, located near the intersection of the Martha Layne Collins Parkway and US Highway 150. The property was purchased for \$3,197,674. Since the purchase of the land, infrastructure additions have been made to develop the property, including a water tank, initial sewer line installation, and the completion of Parkway Drive. As of June 30, 2020, the county has spent a total of \$9,261,813 on this development.

**Note 6. Notes Receivable**

**A. Roberts Road/Bellwood Road Waterlines Notes**

Notes were issued to property owners who wanted to participate in waterline improvements for their neighborhoods and agreed to repay Nelson County for advances to install the waterlines. All outstanding loans from property owners have been determined to be currently uncollectible. The fiscal court has obtained liens on the properties to collect outstanding fees if the properties are sold. The following notes with property owners remain as of June 30, 2020.

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

**Note 6. Notes Receivable (Continued)**

**A. Roberts Road/Bellwood Road Waterlines Notes (Continued)**

1. The county loaned \$2,500 each to five residents and \$1,800 to one resident of the Roberts Road area on May 1, 1997, for the purpose of providing waterlines to their homes. These notes bear interest at the rate of 7 percent per year. Terms of the agreements stipulate monthly payments of \$29, and \$21, respectively, until April 30, 2007. As of June 30, 2020, the principal balance due was \$471.
2. The county loaned \$3,446 each to 17 residents of the Bellwood Road area #1 on March 1, 1998, for the purpose of providing waterlines to their homes. These notes bear interest at the rate of 6 percent per year. Terms of the agreements stipulate monthly payments of \$29 until February 28, 2013. As of June 30, 2020, the principal balance due was \$6,443.
3. The county loaned \$2,167 each to 12 residents of the Bellwood Road area #2 on December 1, 1997, for the purpose of providing waterlines to their homes. These notes bear interest at 6.24 percent per year. Terms of the agreements stipulate monthly payments of \$24 until November 30, 2007. As of June 30, 2020, the principal balance due was \$798.

**B. Central Dispatch Line Of Credit**

On July 16, 2013, the fiscal court authorized a \$410,000 line of credit to central dispatch. These funds will assist central dispatch with GPS mapping, required upgrades for telephones, recording systems, and digital radios and repeaters. Central dispatch is repaying this credit line at \$4,500 per month. As of June 30, 2020, the fiscal court had loaned \$323,795 and the balance due to the fiscal court as of year-end totaled \$119,225. During the fiscal year 2020, a \$50,000 payment was received.

**C. Kentucky Railway Museum**

On November 15, 2011, the fiscal court granted a \$25,000 loan to the Kentucky Railway Museum (KRM). The museum incurred flood damage and was declared a disaster area, thus eligible for Federal Emergency Management Assistance (FEMA) funds. To expedite repairs, the court voted to provide the funds in advance. As of June 30, 2020, the loan balance due was \$15,000.

**D. Nelson County Fair Board**

On September 10, 2013, the fiscal court granted a \$62,445 loan to the Nelson County Fair Board. These funds will assist the Nelson County Fair Board to purchase bleachers for the fairgrounds. As of June 30, 2020, the loan balance due was \$57,445.

**Note 7. Long-term Debt**

**A. Direct Borrowings and Direct Placements**

**1. Lease Agreement - Airport Hangar**

On April 30, 2002, the Nelson County Fiscal Court, on behalf of the Bardstown/Nelson County Air Board, entered into a lease agreement with Kentucky Association of Counties Leasing Trust. The lease provided \$100,000 for construction of an airport hangar. This lease has a variable interest rate that is adjusted annually. During fiscal year 2020, the fiscal court received \$5,704 in principal and interest from the Air Board.

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

**Note 7. Long-term Debt (Continued)**

**A. Direct Borrowings and Direct Placements (Continued)**

**1. Lease Agreement - Airport Hangar (Continued)**

The lease contains a provision that in an event of default, outstanding amounts become immediately due if the fiscal court is unable to make payment. The fiscal court then paid the debt service to the trustee. Future principal and interest payments are scheduled as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 5,000	\$ 418
2022	5,000	154
Totals	<u>\$ 10,000</u>	<u>\$ 572</u>

**2. Financing Obligation Agreement - Fire Truck**

On October 22, 2007, the Nelson County Fiscal Court, on behalf of the New Hope Fire Department, entered into a lease agreement with Kentucky Association of Counties Leasing Trust. The lease provided \$131,900 at a fixed interest rate of 4.63 percent for 144 months to purchase a fire truck (collateral for the lease) for the New Hope Fire Department. The lease contains a provision that in an event of default, outstanding amounts become immediately due if the fiscal court is unable to make payment. During the fiscal year 2020, the fiscal court received \$4,806 in principal and interest from the fire department. The fiscal court then paid the debt service to the trustee. This obligation was paid off as scheduled. The balance as of June 30, 2020 was \$0.

**3. Loan Agreement - Salt River Electric Cooperative Corporation**

On October 17, 2018, the Nelson County Fiscal Court entered into a loan agreement with Salt River Electric Cooperative Cooperation. The loan was for \$330,000 at zero interest, the principal is to be paid in monthly payments beginning in November 2019. The loan is secured by a lien granted by the borrower in the real property, pursuant to the mortgage. The loan contains a provision that in an event of default, outstanding amounts become immediately due if the fiscal court is unable to make payment. The proceeds were used for construction and improvements on the J. Dan Talbott Amphitheater, home of the Stephen Foster Story. Future principal and interest payments are scheduled as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$	\$
2022		
2023	29,445	
2024	36,667	
2025	36,667	
2026-2029	<u>122,221</u>	
Totals	<u>\$ 225,000</u>	<u>\$ 0</u>

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

**Note 7. Long-term Debt (Continued)**

**B. Other Debt**

**1. Justice Center Series 2002B First Mortgage Revenue Bonds**

On October 16, 2003, the Nelson County Public Properties Corporation issued First Mortgage Revenue Bonds Series 2002 B, dated October 1, 2003, in the amount of \$375,000. Proceeds from the bond issue provided funds for the completion of the Nelson County Justice Center. The bonds are secured by a foreclosable first mortgage lien on the project. Future principal and interest payments are scheduled as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 25,000	\$ 3,375
2022	25,000	2,250
2023	25,000	1,125
Totals	<u>\$ 75,000</u>	<u>\$ 6,750</u>

**2. Justice Center Series 2011 Bonds**

The Nelson County Public Properties Corporation entered into a bond issue, Nelson County Public Properties Corporation First Mortgage Refunding Revenue Bonds (Court Facility Project), Series 2011 on May 10, 2011, for the purpose of paying the costs associated with the refunding and refinancing of the Nelson County Justice Center. Proceeds from the original bond issue provided funds for the construction of the Nelson County Justice Center. The issue amount of the bond was \$7,905,000. Interest on the bonds will be payable semi-annually on December 1 and June 1 of each year commencing December 1, 2011. The bonds are secured by a lien on the project. In the event of default the county shall have the exclusive option to acquire the public project. The bonds will mature on June 1 of each year thereafter.

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 775,000	\$ 83,455
2022	800,000	57,880
2023	830,000	29,880
Totals	<u>\$ 2,405,000</u>	<u>\$ 171,215</u>

**C. Changes In Long-term Debt**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements Revenue Bonds	\$ 349,686	\$	\$ 114,686	\$ 235,000	\$ 5,000
	<u>3,260,000</u>		<u>780,000</u>	<u>2,480,000</u>	<u>800,000</u>
Total Long-term Debt	<u>\$ 3,609,686</u>	<u>\$ 0</u>	<u>\$ 894,686</u>	<u>\$ 2,715,000</u>	<u>\$ 805,000</u>

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

**Note 7. Long-term Debt (Continued)**

**D. Aggregate Debt Schedule**

The aggregate debt schedule is as follows:

Fiscal Year Ended June 30	Other Debt		Direct Borrowings and Direct Placements	
	Principal	Interest	Principal	Interest
2021	\$ 800,000	\$ 86,830	\$ 5,000	\$ 418
2022	825,000	60,130	5,000	154
2023	855,000	31,005	29,445	
2024			36,667	
2025			36,667	
2026-2029			122,221	
Totals	<u>\$ 2,480,000</u>	<u>\$ 177,965</u>	<u>\$ 235,000</u>	<u>\$ 572</u>

**Note 8. Closure and Post-closure of Municipal Solid Waste Landfill**

State and federal laws and regulations require the Nelson County Fiscal Court to place a final cover on its Municipal Solid Waste Landfill (landfill) site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste. As of June 30, 2020, county engineers estimate that \$7,158,108 will be required for landfill closure cost and for post-closure care liability. Approximately 77.82 percent of the landfill airspace capacity has been used as of June 30, 2020. 401 KAR 48:310 Section 2 and 3 requires the owner or operator of a landfill to have a detailed written estimate, in current dollars, the cost of hiring a third party to close the solid waste disposal site, and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan. Pursuant to the regulatory basis of accounting, as described in Note 1, no liability has been recognized on the financial statement for closure or post-closure care costs.

Nelson County must comply with established state and federal closure procedures and must perform maintenance and monitoring procedures at the site for 30 years after closure. Estimated closure costs total \$3,840,750, and estimated post closure care costs total \$110,600 per year for 30 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Estimates are adjusted for inflation. The projected date of closure for the current permitted space is July 1, 2025. No cost related to closure or postclosure care has been incurred to date.

**Note 9. 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 \$1,513,910, FY 2019 was \$1,811,392, and FY 2020 was \$2,068,917.

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

**Note 9. Employee Retirement System (Continued)**

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.

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.

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

**Note 9. Employee Retirement System (Continued)**

Hazardous (Continued)

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:

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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.

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

**Note 9. Employee Retirement System (Continued)**

Other Post-Employment Benefits (OPEB) (Continued)

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous (Continued)

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

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

C. 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.



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

**Note 9. Employee Retirement System (Continued)**

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

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

**Note 10. Deferred Compensation**

The Nelson 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 11. Health Reimbursement Account**

The Nelson Fiscal Court established a health reimbursement account to provide employees an additional health benefit. The county has contracted with a third-party administrator, to administer the plan. The plan provides a debit card to each eligible employee providing \$1,000 each year to pay for qualified medical expenses. The cash balance in the health reimbursement account per accounting as of June 30, 2020, is \$14,654

**Note 12. Conduit Debt**

The county, in accordance with KRS 103.210, has issued industrial revenue bonds to provide financial assistance to a company for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Conduit debt obligations bear the Nelson County Fiscal Court's name as issuer. However, 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. The bonds, accordingly, are not reported as liabilities in the accompanying financial statement.

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

**Note 13. Tax Abatements**

The property tax was abated under the authority of the Kentucky business incentive program. The entities are eligible to receive this tax abatement due to four industrial revenue bond agreements. The taxes are abated by reduction of assessed value. There is no provision for recapture of abated taxes. Heaven Hill Distilleries, Inc. agreed to create 34 jobs. Lux Row Distillers, LLC agreed to create 10 jobs. The Bardstown Bourbon Company agreed to create 34 jobs. For fiscal year ended June 30, 2020, property taxes totaling \$22,422 (Heaven Hill Distilleries Inc. \$8,771; Lux Row Distillers, LLC \$3,313; and the Bardstown Bourbon Company \$10,338) were abated. As part of the tax abatement agreement, the fiscal court committed to issuing the Industrial Revenue Bonds which allowed the property to be property-tax exempt.

In addition, property taxes related to another distilling companies (James B. Beam Distilling Company) were abated pursuant under the Kentucky Enterprise Initiative Act (KEIA) program of the Kentucky Economic Development Finance Authority the taxes are abated by a reduction of assessed value. There is no provision for recapture of abated taxes. For fiscal year ended June 30, 2020, property taxes totaling \$46,387 were abated related to this agreement.

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

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

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

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

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 6,755,000	\$ 6,755,000	\$ 6,990,680	\$ 235,680
Excess Fees	341,000	512,000	628,292	116,292
Licenses and Permits	512,300	512,300	613,809	101,509
Intergovernmental	479,100	479,100	477,177	(1,923)
Charges for Services	12,500	12,500	22,924	10,424
Miscellaneous	682,500	710,500	846,196	135,696
Interest	1,600	1,600	1,973	373
Total Receipts	<u>8,784,000</u>	<u>8,983,000</u>	<u>9,581,051</u>	<u>598,051</u>
<b>DISBURSEMENTS</b>				
General Government	1,555,000	1,588,800	1,478,480	110,320
Protection to Persons and Property	2,290,000	2,423,900	2,535,769	(111,869)
General Health and Sanitation	979,100	992,600	959,833	32,767
Social Services	176,600	180,800	151,159	29,641
Recreation and Culture	530,900	551,500	406,438	145,062
Roads	58,900	59,900	59,495	405
Bus Services	215,000	215,000	143,652	71,348
Capital Projects	275,000	290,500	15,475	275,025
Administration	2,810,000	2,786,500	2,375,692	410,808
Total Disbursements	<u>8,890,500</u>	<u>9,089,500</u>	<u>8,125,993</u>	<u>963,507</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(106,500)</u>	<u>(106,500)</u>	<u>1,455,058</u>	<u>1,561,558</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	250,000	250,000	250,000	
Transfers To Other Funds	<u>(1,808,500)</u>	<u>(1,808,500)</u>	<u>(1,783,518)</u>	24,982
Total Other Adjustments to Cash (Uses)	<u>(1,558,500)</u>	<u>(1,558,500)</u>	<u>(1,533,518)</u>	<u>24,982</u>
Net Change in Fund Balance	(1,665,000)	(1,665,000)	(78,460)	1,586,540
Fund Balance - Beginning	<u>1,665,000</u>	<u>1,665,000</u>	<u>1,680,399</u>	<u>15,399</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,601,939</u>	<u>\$ 1,601,939</u>

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

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 2,090,000	\$ 2,313,000	\$ 2,324,031	\$ 11,031
Miscellaneous			3,256	3,256
Total Receipts	<u>2,090,000</u>	<u>2,313,000</u>	<u>2,327,287</u>	<u>14,287</u>
<b>DISBURSEMENTS</b>				
Roads	1,386,500	1,682,200	2,948,008	(1,265,808)
Capital Projects	1,480,500	1,480,500		1,480,500
Administration	681,000	608,300	486,979	121,321
Total Disbursements	<u>3,548,000</u>	<u>3,771,000</u>	<u>3,434,987</u>	<u>336,013</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,458,000)</u>	<u>(1,458,000)</u>	<u>(1,107,700)</u>	<u>350,300</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	875,000	875,000	875,000	
Total Other Adjustments to Cash (Uses)	<u>875,000</u>	<u>875,000</u>	<u>875,000</u>	
Net Change in Fund Balance	(583,000)	(583,000)	(232,700)	350,300
Fund Balance - Beginning	583,000	583,000	429,706	(153,294)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 197,006</u>	<u>\$ 197,006</u>

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

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 671,000	\$ 671,000	\$ 683,379	\$ 12,379
Charges for Services	50,500	50,500	87,095	36,595
Miscellaneous	81,500	103,400	83,085	(20,315)
Total Receipts	<u>803,000</u>	<u>824,900</u>	<u>853,559</u>	<u>28,659</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	1,740,500	1,764,000	1,721,717	42,283
Capital Projects	14,000	14,000		14,000
Administration	452,500	450,900	420,899	30,001
Total Disbursements	<u>2,207,000</u>	<u>2,228,900</u>	<u>2,142,616</u>	<u>86,284</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,404,000)</u>	<u>(1,404,000)</u>	<u>(1,289,057)</u>	<u>114,943</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>1,404,000</u>	<u>1,404,000</u>	<u>1,289,057</u>	<u>(114,943)</u>
Total Other Adjustments to Cash (Uses)	<u>1,404,000</u>	<u>1,404,000</u>	<u>1,289,057</u>	<u>(114,943)</u>
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**NELSON 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		
<b>RECEIPTS</b>				
Intergovernmental	\$ 189,000	\$ 189,000	\$ 256,585	\$ 67,585
Total Receipts	189,000	189,000	256,585	67,585
<b>DISBURSEMENTS</b>				
Roads	150,000	150,000	133,824	16,176
Administration	49,000	49,000		49,000
Total Disbursements	199,000	199,000	133,824	65,176
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(10,000)	(10,000)	122,761	132,761
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	(200,000)	(200,000)	(200,000)	
Total Other Adjustments to Cash (Uses)	(200,000)	(200,000)	(200,000)	
Net Change in Fund Balance	(210,000)	(210,000)	(77,239)	132,761
Fund Balance - Beginning	210,000	210,000	220,190	10,190
Fund Balance - Ending	\$ 0	\$ 0	\$ 142,951	\$ 142,951



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

<b>EMERGENCY MEDICAL SERVICES FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 10,000	\$ 83,000	\$ 83,011	\$ 11
Charges for Services	2,202,000	2,202,000	2,097,067	(104,933)
Miscellaneous			11,847	11,847
Total Receipts	<u>2,212,000</u>	<u>2,285,000</u>	<u>2,191,925</u>	<u>(93,075)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	2,121,000	2,026,600	2,427,550	(400,950)
Capital Projects	234,000	234,000		234,000
Administration	946,000	1,113,400	844,079	269,321
Total Disbursements	<u>3,301,000</u>	<u>3,374,000</u>	<u>3,271,629</u>	<u>102,371</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,089,000)</u>	<u>(1,089,000)</u>	<u>(1,079,704)</u>	<u>9,296</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>1,029,000</u>	<u>1,029,000</u>	<u>1,075,000</u>	<u>46,000</u>
Total Other Adjustments to Cash (Uses)	<u>1,029,000</u>	<u>1,029,000</u>	<u>1,075,000</u>	<u>46,000</u>
Net Change in Fund Balance	(60,000)	(60,000)	(4,704)	55,296
Fund Balance - Beginning	<u>60,000</u>	<u>60,000</u>	<u>62,362</u>	<u>2,362</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 57,658</u>	<u>\$ 57,658</u>

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

	<b>SOLID WASTE FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 57,500	\$ 57,500	\$ 59,312	\$ 1,812
Charges for Services	2,200,000	2,200,000	2,267,141	67,141
Miscellaneous	7,500	7,500	10,914	3,414
Total Receipts	<u>2,265,000</u>	<u>2,265,000</u>	<u>2,337,367</u>	<u>72,367</u>
<b>DISBURSEMENTS</b>				
General Health and Sanitation	1,825,000	1,909,900	1,724,268	185,632
Administration	624,000	539,100	423,383	115,717
Total Disbursements	<u>2,449,000</u>	<u>2,449,000</u>	<u>2,147,651</u>	<u>301,349</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(184,000)</u>	<u>(184,000)</u>	<u>189,716</u>	<u>373,716</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	<u>(115,000)</u>	<u>(115,000)</u>	<u>(115,000)</u>	
Total Other Adjustments to Cash (Uses)	<u>(115,000)</u>	<u>(115,000)</u>	<u>(115,000)</u>	
Net Change in Fund Balance	(299,000)	(299,000)	74,716	373,716
Fund Balance - Beginning	<u>299,000</u>	<u>299,000</u>	<u>358,961</u>	<u>59,961</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 433,677</u>	<u>\$ 433,677</u>

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

	<b>LANDFILL FUND</b>			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 4,000	\$ 4,000	\$ 4,000	\$
Charges for Services	2,665,000	2,665,000	3,058,110	393,110
Miscellaneous	43,000	43,000	56,723	13,723
Interest	21,000	21,000	35,206	14,206
Total Receipts	<u>2,733,000</u>	<u>2,733,000</u>	<u>3,154,039</u>	<u>421,039</u>
<b>DISBURSEMENTS</b>				
General Health and Sanitation	1,414,000	1,973,600	2,001,284	(27,684)
Capital Projects	500,000	500,000		500,000
Administration	1,631,000	2,505,400	447,519	2,057,881
Total Disbursements	<u>3,545,000</u>	<u>4,979,000</u>	<u>2,448,803</u>	<u>2,530,197</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(812,000)</u>	<u>(2,246,000)</u>	<u>705,236</u>	<u>2,951,236</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	150,000	150,000	190,017	40,017
Transfers To Other Funds	(288,000)	(288,000)	(288,000)	
Total Other Adjustments to Cash (Uses)	<u>(138,000)</u>	<u>(138,000)</u>	<u>(97,983)</u>	<u>40,017</u>
Net Change in Fund Balance	(950,000)	(2,384,000)	607,253	2,991,253
Fund Balance - Beginning	950,000	2,384,000	6,318,653	3,934,653
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,925,906</u>	<u>\$ 6,925,906</u>

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

	<b>OCCUPATIONAL LICENSE FEE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 1,312,000	\$ 1,312,000	\$ 1,359,520	\$ 47,520
Total Receipts	<u>1,312,000</u>	<u>1,312,000</u>	<u>1,359,520</u>	<u>47,520</u>
<b>DISBURSEMENTS</b>				
General Government	189,600	191,900	156,384	35,516
Social Services	15,000	15,000	7,098	7,902
Airports			17,200	(17,200)
Bus Services	17,200	17,200		17,200
Administration	184,200	181,900	17,635	164,265
Total Disbursements	<u>406,000</u>	<u>406,000</u>	<u>198,317</u>	<u>207,683</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>906,000</u>	<u>906,000</u>	<u>1,161,203</u>	<u>255,203</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	<u>(1,321,000)</u>	<u>(1,321,000)</u>	<u>(1,367,000)</u>	<u>(46,000)</u>
Total Other Adjustments to Cash (Uses)	<u>(1,321,000)</u>	<u>(1,321,000)</u>	<u>(1,367,000)</u>	<u>(46,000)</u>
Net Change in Fund Balance	(415,000)	(415,000)	(205,797)	209,203
Fund Balance - Beginning	<u>415,000</u>	<u>415,000</u>	<u>430,505</u>	<u>15,505</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 224,708</u>	<u>\$ 224,708</u>

**NELSON 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**

- General fund - protection to persons and property line item exceeded budgeted appropriations by \$111,869.
- Road fund - roads line item exceeded budgeted appropriations by \$1,265,808.
- Emergency medical service fund - protection to persons and property line item exceeded budgeted appropriations by \$400,950.
- Landfill fund - general health and sanitation line item exceeded budgeted appropriations by \$27,684.
- Occupational license fee fund - airports line item exceeded budgeted appropriations by \$17,200.

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

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

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**NELSON 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	\$ 2,988,946	\$	\$	\$ 2,988,946
Land Improvements	12,783,228	76,159		12,859,387
Buildings	31,210,500	41,735	13,209	31,239,026
Vehicles	7,903,494	883,371	194,790	8,592,075
Computers	198,620			198,620
Equipment	5,411,769	206,663	5,465	5,612,967
Infrastructure	105,065,974	1,481,349		106,547,323
 Total Capital Assets	 <u>\$ 165,562,531</u>	 <u>\$ 2,689,277</u>	 <u>\$ 213,464</u>	 <u>\$ 168,038,344</u>

**NELSON 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.

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land and Land Improvements	\$ 10,000	10-60
Buildings	\$ 8,000	10-75
Vehicles	\$ 5,000	3-25
Computers	\$ 3,000	2-10
Equipment	\$ 5,000	3-25
Infrastructure	\$ 10,000	10-50

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

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Dean Watts, Nelson County Judge/Executive  
Members of the Nelson 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 Nelson County Fiscal Court for the fiscal year ended June 30, 2020, and the related notes to the financial statement which collectively comprise the Nelson County Fiscal Court's financial statement and have issued our report thereon dated February 4, 2021. In that report, our opinion is modified because in the jail commissary fund the jail accounting records were not adequate and all receipts were not deposited or accounted for properly.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2020-001, 2020-003, 2020-004 and 2020-005 to be material weaknesses.



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

### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Nelson County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2020-001, 2020-002, 2020-004 and 2020-005.

### **Views of Responsible Officials and Planned Corrective Action**

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

### **Purpose of this Report**

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

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

February 4, 2021

**NELSON COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

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

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**NELSON COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

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

FINANCIAL STATEMENT FINDINGS:

2020-001 The Nelson County Fiscal Court Did Not Follow The Uniform System Of Accounts When Preparing Their Original Budget

---

The Nelson County Fiscal Court budgeted total capital projects in budget series 8000 in five funds. The line item detail section of the budget included capital project subcategories that were not in the 8000 line item series. The county used the capital project subcategory totals on their fourth quarter report. In addition, the occupational license tax fund per the fourth quarter report presented budget in the 6200 budget series rather than the 6300 series on the approved budget. The county believed that since the subcategory detail was also approved by fiscal court that this was an acceptable practice.

The original budget did not follow the uniform system of accounts. Further, the fiscal court's fourth quarter report, which serves as their financial statement, did not reflect any expenditure line items exceeding budget appropriations even though they overspent their budget:

- General fund - protection to persons and property line item exceeded budgeted appropriations by \$111,869;
- Road fund - roads line item exceeded budgeted appropriations by \$1,265,808;
- Emergency medical service fund - protection to persons and property line item exceeded budgeted appropriations by \$400,950;
- Landfill fund - general health and sanitation line item exceeded budgeted appropriations by \$27,684; and
- Occupational license fee fund - airports line item exceeded budgeted appropriations by \$17,200.

The Department for Local Government (DLG) sets forth the Uniform System of Accounts for Kentucky counties within their *County Budget Preparation and State Local Finance Officer Policy Manual*. The chart of accounts within this system utilizes a nine number numerical code for expenditures to identify the specific type of expenditure being posted.

We recommend the Nelson County Fiscal Court utilize the Uniform System of Accounts when preparing their budget, ensuring the budget detail corresponds to the budget total summary. We further recommend the fiscal court monitor their budget to ensure expenditures do not exceed budgeted appropriations.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The error is a result of terminology discrepancies between the County Judge, Treasurer, Fiscal Court, Department for Local Government and the Ky Auditors Office. The discrepancies have now been clarified and this finding is no longer an issue.*

2020-002 The Nelson County Fiscal Court Did Not Have Written Collateral Security Agreements With Two Banks, Resulting In \$2,133,161 Deposits Being Unsecured At Year-End

---

The Nelson County Fiscal Court did not have written collateral security agreements with two banks resulting in uncollateralized and unsecured deposits totaling \$2,133,161 on June 30, 2020. The banks purchased other banks in Nelson County with which the fiscal court did business with previously. The fiscal court did not obtain collateral security agreements after the banks changed ownership.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-002 The Nelson County Fiscal Court Did Not Have Written Collateral Security Agreements With Two Banks, Resulting In \$2,133,161 Deposits Being Unsecured At Year-End (Continued)

---

In order to ensure the validity of the pledges, a written agreement, approved by the bank's board of directors or loan committee, must be in place. Without the agreement, all funds in excess of FDIC are uncollateralized and in jeopardy should the financial institution cease operations.

KRS 41.240 requires security agreement and collateral for any amounts on deposit not otherwise covered by insurance through the Federal Deposit Insurance Corporation (FDIC). According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (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.

We recommend the Nelson County Fiscal Court obtain written collateral security agreements with both banks in order to ensure adequate coverage of their deposits in these financial institutions.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Due to various bank mergers and acquisitions, two of our local banks with whom we conduct business have changed names/ownership. The Fiscal Court had written agreements with the prior banks, and we have attempted to secure agreements from the new banks with no follow-up. Despite the non-written agreements, and based on reports provided to the Treasurer by the banks, all deposits were fully collateralized on June 30, 2020. The County Judge Executive and Treasurer will follow up with the banks in question to secure written agreements.*

Auditor's Reply: Pledges are not guaranteed without a written agreement in place.

2020-003 The Nelson County Jail Did Not Have Segregation Of Duties Over The Jail Commissary Fund

---

The Nelson County Jail lacked adequate segregation of duties over the accounting functions related to the jail commissary fund. The former bookkeeper collected funds, issued receipts, posted transactions to the ledgers, and performed the monthly bank reconciliations. Checkout sheets were prepared by the former bookkeeper as well as making the deposits. In addition, two KISOK machines were reconciled by the former bookkeeper with no documentation by the jailer or other designee that the amount of cash was properly recorded and deposited. Deposits were not made daily and receipts issued were not accounted for in numerical sequence. For disbursements, the former bookkeeper prepared all checks and posted to the ledger with only one signature required on checks. There was no documentation that invoices or other supporting document was reviewed or approved before payment was made. Oversight by either the jailer or another employee was not documented for these activities.

The Nelson County Jailer stated he did not provide financial management oversight over jail commissary fund bookkeeping activities due to the former bookkeeper having over twenty-five years of experience. The jailer did not implement adequate policies and procedures to ensure effective internal controls including proper segregation of duties.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-003 The Nelson County Jail Did Not Have Segregation Of Duties Over The Jail Commissary Fund  
(Continued)

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A lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. This material weakness in the internal control structure resulted in misappropriation of assets and errors that went undetected for several years. An employee at the jail discovered cash, checks, and money orders in various locations throughout the former bookkeeper's office. The former bookkeeper was placed on administrative leave and later fired. The employee who found the missing cash and checks prepared a detailed log that dated as far back as 2014 totaling \$20,501 that had not been properly recorded and deposited. In addition, she also found receipts books and logged missing deposits that totaled \$15,989. The case was reported to the Kentucky State Police on October 28, 2020.

Good internal controls dictate that the collection of receipts, recording of transactions, and financial reporting functions be segregated in order to reduce the opportunity for the misappropriation of assets and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in receiving cash, recording transactions, and reporting financial information. If segregation of duties is not possible, implementation of strong compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting.

We recommend the jail segregate duties where possible. If segregation of duties is not possible, the jailer should offset the lack of adequate segregation of duties by implementing compensating controls, such as periodically performing surprise cash counts, reviewing the bank reconciliations, and comparing the daily deposits to the daily checkouts and the receipts ledger, reconciling any differences. In addition, there should be a comparison of the monthly reports to the receipts and disbursements ledgers for accuracy by someone other than the preparer. Initialing and dating the bank reconciliations, bank deposits, daily checkout sheets, receipts and disbursements ledgers, and reports can document this review. This matter will be referred to the Kentucky State Police and the Kentucky Office of the Attorney General.

Views of Responsible Official and Planned Corrective Action:

*County Jailer's Response: Due to the prior bookkeeper being employed and responsible for the accounting of the Nelson County Jail for twenty-five years, the Jailer did not realize that there was an issue of segregation of duties. The jail will make all feasible efforts to segregate duties. We will have two deputies initial all receipts, deposits and daily checkouts. Since we are a small facility, we will implement compensating controls in addition to the segregation of duties, to ensure full accuracy and integrity of all accounting.*

*County Judge/Executive's Response:*

- *Segregation of duties is a challenge to accomplish in a small facility with minimum staff, but cross training should also be implemented.*
- *On the question of "missing cash": is there proof that cash is missing or is this simply a case of sloppy bookkeeping?*

Auditor's Reply: Due to the lack of adequate controls, there were funds that could not be accounted for. The Kentucky State Police were notified to investigate and determine whether the funds are missing.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-004 The Nelson County Jail Did Not Properly Account For Daily Receipts Or Prepare Required Annual Financial Report For The Jail Commissary Account Resulting In A Qualified Opinion On The Financial Statement

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When we started the audit of the Nelson County Jail commissary fund the jailer informed us of issues relating to receipts. He informed us that they found cash and checks throughout the office from as far back as 2014 that had not been deposited totaling \$20,501. Also the jailer found receipt forms where no funds were attached and where they could not determine the funds had been deposited or accounted for from January 1, 2019 through July 30, 2020 totaling \$15,989. Auditors tested receipts collected for the months of November 2019 and January 2020. Based on this review, it was noted that receipts, including cash removed from kiosk machines, were not deposited daily as required resulting in only nine deposits being made for the two months tested. Testing indicated that the cash was held for up to three days but could be as much as 20 days before being deposited.

For the months tested, auditors noted that the bookkeeper used pre-numbered receipts from various receipts books. These receipts were not batched daily or put in numerical sequence. The January 13, 2020 deposit tested had receipts attached that were for the previous four months of September, October, November, and December 2019. Once a jail staff employee put the receipts books in numerical sequence, auditors found that there were receipts missing for the two months tested. It was determined that 18 receipts were missing for fees and cash collected for home incarceration program, drug testing, and work release programs.

In addition, the annual financial statement was not prepared or presented to the county treasurer as required by the Department for Local Government's *Budget Preparation and State Local Finance Officer Policy Manual*. The jailer was not in compliance with the statute that states the jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account.

The jail failed to implement effective controls over the accounting of the jail commissary to ensure proper fiscal management over the account including appropriately segregating duties. There was no management oversight in place over inmate and commissary accounting functions to ensure receipts are batched and deposited daily. The Nelson County Jail had not implemented effective policies and procedures to properly outline requirements for various accounting functions.

The lack of management oversight, supervision, proper internal controls, and review resulted in missing cash, fees collected not being deposited, and inadequate accounting and reporting. Improper accounting for fees collected resulted in the county not being paid accurate fees due from the jail on a timely basis as required. The failure to prepare the annual financial statement resulted in the auditors not being able to have financial information needed to obtain sufficient appropriate audit evidence. The lack of financial information prevented the performance of audit procedures necessary to ensure the accuracy of amounts for the accounts and overcome the fraud risk associated with the financial information not provided to us. Furthermore, due to the lack of accurate accounting information and commissary financial statement, we were unable to obtain sufficient appropriate audit evidence to conclude that the county's financial statement was free from material misstatement.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which are to be used by jailers for jail commissary funds maintained pursuant to KRS 441.135. This manual includes the following accounting and reporting guidance:

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-004 The Nelson County Jail Did Not Properly Account For Daily Receipts Or Prepare Required Annual Financial Report For The Jail Commissary Account Resulting In A Qualified Opinion On The Financial Statement (Continued)

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“DAILY CHECK-OUT SHEET - Daily deposits are required. At the end of each business day the Jailer or assigned personnel should separate individual receipts into categories listed on the check-out sheet. The total of each category should be entered on the appropriate space provided. The amount deposited line should equal the amount of money on hand at the end of each day less start-up cash. A maximum of fifty dollars shall be used for start-up for the next business day. All daily detail (deposit form, cash receipts, etc.) should be attached to the form. If the total daily deposit is correct, post to the Jail Commissary Fund Receipts Journal.”

“JAIL COMMISSARY RECEIPTS JOURNAL - Receipts should be posted to this journal on a daily basis. The total amount category should agree with the amount deposited line on the Daily Check-Out Sheet.”

KRS 441.135(2) states, in part, “[t]he jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account.”

We recommend the Nelson County Jailer implement strong oversight, internal controls, supervision, and review to ensure receipts are batched and deposited daily. The Jailer should comply with the applicable statutes by maintaining required records. The Jailer should submit an accurate annual commissary report to the County Treasurer at year-end that includes all receipts and disbursements and reconciles to the receipts and disbursements ledgers. This matter will be referred to the Kentucky State Police and the Kentucky Office of the Attorney General.

Views of Responsible Official and Planned Corrective Action:

*County Jailer’s Response: Due to the prior bookkeeper being employed and responsible for the accounting of the Nelson County Jail for twenty-five years, the Jailer did not realize that deposits were not being done daily in accordance with policy. The Annual Financial Report was not completed by the prior bookkeeper for the end of the fiscal year. This employee became under investigation and is no longer employed at the Nelson County Jail. Due to open investigations, this was not completed. The Jailer will implement the policy to deposit all funds daily and will have the employee in that position complete the annual financial statement as required.*

*County Judge/Executive’s Response: For the past two years, the Jail did not provide Fiscal Court with proper receipts or reimbursements.*

2020-005 The Jailer Failed To Properly Implement Controls Over The Inmate Trust Account

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The Nelson County Jailer failed to implement controls over the inmate account. This account is an agency trust account used to maintain funds deposited by or on behalf of inmates. Funds deposited by inmates are reduced for allowable jail costs and fees as well as inmate purchases from the jail commissary. At the time of an inmates’ release, if the inmate owes no additional amounts, the amount remaining in the inmate’s account is refunded to the inmate upon their release.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-005 The Jailer Failed To Properly Implement Controls Over The Inmate Trust Account (Continued)

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The following deficiencies were noted:

- No management oversight over the removal, deposit, and recording of cash from kiosk machines;
- Inmate monies were not separate from commissary profit account funds;
- Daily checkout sheets to account for all inmate fund deposits were not prepared;
- Receipts collected from inmates were not properly recorded to inmate accounts;
- Disbursements from the inmate account were not reviewed by a person independent of the accounting function; and
- Refunds issued to inmates upon release was not properly accounted for or reviewed by a person independent of the accounting function.

The jailer failed to properly implement internal controls and provide sufficient management oversight over the kiosk accounting process, daily deposits, inmate reports maintained, refunds made to inmates upon release, separate accounting for jail inmate trust bank account, and proper financial statement reporting. The lack of internal controls over the accounting functions for the inmate trust account allowed undetected errors and alleged fraud to occur. In addition, the lack of segregation of duties over this process increased the risk of misappropriation of assets, errors, fraud, and inaccurate financial reporting.

Good internal controls dictate that the collection of receipts, recording of transactions, and financial reporting functions be segregated in order to reduce the opportunity for the misappropriation of assets and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in receiving cash, recording transactions, and reporting financial information. 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's Budget Preparation and State Local Finance Officer Policy Manual* requires jailers to maintain monthly cash reconciliations, daily checkout sheets, and disbursement ledgers. The Department for Local Government requirements assist jailers in ensuring that records are complete and accurate.

We recommend that the jailer implement procedures to strengthen controls over the inmate account and associated accounting functions which include the following:

- Kiosk machines withdrawals should be performed by two people and a daily checkout sheet should be prepared that accurately accounts for the funds removed and documented by signatures of both.
- Receipts should be deposited daily and deposit tickets should be prepared and reviewed by an independent person to ensure the amount of the deposit agrees to the daily checkout sheet and cash and checks listed per the deposit ticket.
- After the deposit ticket is prepared and reviewed, a person other than the one taking deposit to the bank should agree the deposit to the daily checkout sheet and receipts ledger. This should be documented by initialing deposit, daily checkout, and receipts ledger. The deposit ticket should be attached to the daily checkout sheet after review.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-005 The Jailer Failed To Properly Implement Controls Over The Inmate Trust Account (Continued)

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- At a minimum, on a monthly basis, a person independent of the accounting function should review deposits and compare to the inmate fund in the accounting system to ensure accuracy.
- The inmate account is considered a trust account and should reconcile to zero each month. Bank reconciliations should be performed monthly and reviewed by a person independent of the accounting process.
- All disbursements should be reviewed by a person independent of the accounting function. The jailer should implement procedures to require the inmates to sign a receipt documenting the return of their fund balance upon release.

Views of Responsible Official and Planned Corrective Action:

*County Jailer's Response: Due to the prior bookkeeper being employed and responsible for the accounting of the Nelson County Jail for twenty-five years, the Jailer did not realize that there was an issue with the inmate trust account. The Jailer will ensure that there are two people to oversee all accounting functions, from daily deposits, daily checkouts, bank reconciliations, inmate refunds etc.*

*County Judge/Executive's Response: We agree with the findings.*

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

**NELSON COUNTY FISCAL COURT**

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

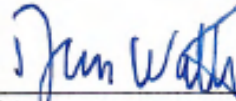
Appendix A

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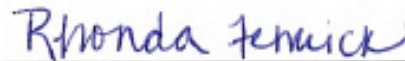
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
COUNTY FISCAL COURT

For The Year Ended June 30, 2020

The Nelson 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.



\_\_\_\_\_  
Dean Watts  
County Judge/Executive



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Rhonda Fenwick  
County Treasurer