

**REPORT OF THE AUDIT OF THE
KENTUCKY BOARD OF NURSING**

**For The Fiscal Year Ended
June 30, 2019**



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

Board of Directors
Kentucky Board of Nursing

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying modified cash basis financial statement of the Kentucky Board of Nursing (KBN), as of and for the year ended June 30, 2019, and the related notes to the financial statement, which collectively comprise KBN's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statement

KBN's management is responsible for the preparation and fair presentation of the financial statement in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash 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 the 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 the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective modified cash basis financial position of the KBN, as of June 30, 2019, and the respective changes in financial position – modified cash basis and, where applicable, cash flows, thereof for the year then ended on the basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2020 on our consideration of KBN's internal control over financial reporting and on our test 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 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 KBN's internal control over financial reporting and compliance.

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

March 16, 2020

FINANCIAL STATEMENT

**KENTUCKY BOARD OF NURSING
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES-MODIFIED CASH BASIS
FOR THE YEAR ENDED 30, 2019**

| | SPECIAL REVENUE FUNDS | | TOTAL |
|--|-----------------------|---------------------|---------------------|
| | Operating Fund | Scholarship Fund | |
| Revenues: | | | |
| License fees | \$ 6,593,604 | \$ 362,085 | \$ 6,955,689 |
| Nurse aide registry | 243,750 | | 243,750 |
| Penalties | 186,568 | | 186,568 |
| Miscellaneous income | 91,329 | | 91,329 |
| Interest income | 231,077 | | 231,077 |
| Forfeited scholarships | | 38,136 | 38,136 |
| Entitlement - state government | 135 | 53,980 | 54,115 |
| Total revenues | <u>7,346,463</u> | <u>454,201</u> | <u>7,800,664</u> |
| Expenditures: | | | |
| Personnel Services: | | | |
| Salaries and wages | 2,632,535 | 9,624 | 2,642,159 |
| Payroll tax expense and fringe benefits | 2,680,959 | 10,200 | 2,691,159 |
| Other personnel costs | 25,040 | | 25,040 |
| Total personnel expenditures | <u>5,338,534</u> | <u>19,824</u> | <u>5,358,358</u> |
| Current operating expenditures: | | | |
| Rentals - equipment and non-state owned building | 289,055 | 5,172 | 294,227 |
| Non-professional services | 85,154 | 550 | 85,704 |
| Computer services | 216,471 | 3,720 | 220,191 |
| Professional services | 142,948 | | 142,948 |
| Miscellaneous | 207,656 | 5 | 207,661 |
| Travel expense | 43,960 | | 43,960 |
| Postage and related services | 51,942 | 693 | 52,635 |
| Electricity | 41,793 | 785 | 42,578 |
| Maintenance and repairs | 30,688 | 118 | 30,806 |
| Printing and other services | 23,764 | | 23,764 |
| Office and computer supplies | 18,269 | 484 | 18,753 |
| Telephone | 35,575 | 416 | 35,991 |
| IT hardware and software | 20,339 | 2 | 20,341 |
| Books for agency use | 2,524 | | 2,524 |
| Small furnishings and equipment | 7,039 | | 7,039 |
| Total current operating expenditures | <u>1,217,177</u> | <u>11,945</u> | <u>1,229,122</u> |
| Grants, scholarships and benefits to students | | 415,500 | 415,500 |
| Total expenditures | <u>6,555,711</u> | <u>447,269</u> | <u>7,002,980</u> |
| Net Change in Fund Balance | <u>790,752</u> | <u>6,932</u> | <u>797,684</u> |
| Cash and equivalents, July 1, 2018 | 5,556,576 | 496,180 | 6,052,756 |
| Cash and equivalents, June 30, 2019 | <u>\$ 6,347,328</u> | <u>\$ 503,112</u> | <u>\$ 6,850,440</u> |

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

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NOTES TO THE FINANCIAL STATEMENT

**KENTUCKY BOARD OF NURSING
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2019**

Note 1 – Nature of Organization

The Kentucky Board of Nursing (KBN) was established as an agency of the Commonwealth of Kentucky for the purpose of regulating the practice of nursing according to the laws of the Commonwealth. KBN is responsible for licensing and registering qualified nurses and advance registered nurse practitioners, approving providers for mandatory continuing education and pre-licensure programs of nursing, enforcing the Kentucky nursing laws, and issuing nursing practice opinions. KBN is also responsible for administering the Nursing Incentive Scholarship Fund.

The Kentucky Board of Nursing is one of the Boards and Commissions within the General Government Cabinet, a program cabinet of the Commonwealth of Kentucky as enumerated in KRS 12.020. The accompanying financial statement includes only those transactions within the operating and scholarship funds which are attributable to the KBN. The operating fund transactions are used for the day-to-day operations of KBN. The scholarship fund transactions are used to administer the Nursing Incentive Scholarship Fund.

Note 2 – Summary of Significant Accounting Policies

This summary of significant accounting policies of the Kentucky Board of Nursing is presented to assist in understanding KBN's financial statement. The financial statement and notes are the representation of KBN's management, who is responsible for their integrity and objectivity. These accounting policies conform to the modified cash basis of accounting described below and have been consistently applied in the preparation of the financial statement.

Basis of Presentation

The accompanying financial statement has been prepared on a cash basis of accounting modified by the application of KRS 45.229, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. KRS 45.229 provides that for a period of 30 days after the close of any fiscal year, warrants may be drawn against available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during the year or in fulfillment of contracts properly made during the year but for no other purpose.

Cash Deposits

Agency receipts are deposited in the Commonwealth's general depository administered by the Kentucky State Treasurer, who has statutory responsibility and authority to safeguard the monies. The Kentucky Board of Nursing participates in the internal cash and investment pool of the Commonwealth of Kentucky. Therefore, it follows the policies established by the Commonwealth for all pooled cash investments.

**KENTUCKY BOARD OF NURSING
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2019
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

Cash Deposits (Continued)

The risk disclosures related to deposits and investments are reported in the Commonwealth's Comprehensive Annual Financial Report. Accordingly, the Commonwealth of Kentucky's Comprehensive Annual Financial Report for the year ended June 30, 2019 should be referred to for disclosures required by the Governmental Accounting Standards Board. At June 30, 2019, the Kentucky Board of Nursing's share of deposits and interest income in the Commonwealth's general depository was \$6,840,621 and \$231,077 respectively.

In addition to the general depository bank, KBN maintains a temporary deposit bank account, authorized by KRS 41.070 and approved by the Finance and Administration Cabinet. The accumulated balance in the account fluctuates periodically. The cash balance in the account at June 30, 2018 was \$3,614, which has been recorded as cash and equivalents on the financial statement. The amount in the account at June 30, 2019 was \$9,819, which has been added to the financial statement ending cash and equivalent balance at June 30, 2019. The increase in the temporary deposit account of \$6,205 during fiscal year 2019 is recorded in miscellaneous income under revenue on the financial statement.

| | |
|---------------------------------------|-----------------|
| Cash and equivalents, June 30, 2018 | \$ 3,614 |
| Cash and equivalents, June 30, 2019 | <u>9,819</u> |
| Increase in temporary deposit account | <u>\$ 6,205</u> |

Restricted Fund Balances

The operating fund balance is restricted, in accordance with KRS 314.161, to be used to meet necessary expenditures of the Board of Nursing. The scholarship fund balance is restricted, in accordance with KRS 314.025 and 314.026, for the purpose of making scholarships available to Kentucky residents pursuing programs at schools of nursing and graduate programs in nursing.

Note 3 – Leases

On November 1, 2016, the Kentucky Board of Nursing amended an existing lease agreement for office space in Louisville, Kentucky to include additional office space. The lease is renewable annually through June 30, 2021 unless 30 days' notice of intent not to extend is given to the lessor. This space is being rented at a quarterly fee of \$64,654 or \$258,616 annually.

Note 4 – Retirement Plans

All employees, with the exception of returning KERS retirees, who work more than 100 hours per month participate in a defined benefit plan, Kentucky Employees Retirement System (KERS), which is administered by the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky. KERS is a cost-sharing multiple-employer public employee retirement system.

**KENTUCKY BOARD OF NURSING
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2019
(Continued)**

Note 4 – Retirement Plans (Continued)

The plan provides retirement, disability, and death benefits to plan members. KERS provides for cost-of-living adjustments at the discretion of the Kentucky legislature.

Employees hired prior to September 1, 2008 who retire at or after age 65 with 48 months of credited service are entitled to a retirement benefit based on a range of 1.97% to 2.0% of their final average salary multiplied by their years of service. Final average salary is the employee's average of the five fiscal years during which the employee had the highest average monthly salary. Benefits fully vest on reaching five years of service. Vested employees may retire after 27 years of service and receive full benefits; or retire after age 55 and receive reduced benefits. KERS also provides death and disability benefits. Benefits are established by Kentucky Revised Statutes.

The Kentucky Board of Nursing portion of payroll for employees covered by the KERS for the year ended June 30, 2019 totaled \$2,585,309. Covered employees are required by state statute to contribute 5.00% of their salary to KERS. KBN is required by the same statute to contribute 83.43% for fiscal year 2019 for all employee salaries regardless of defined benefit coverage status. This includes a portion for both pension and other postemployment benefits (OPEB). See Note 5 for more information concerning OPEB. The contribution for the year ended June 30, 2019 totaled approximately \$2,060,731.

On June 27, 2008 House Bill 1, the Pension Reform legislation, was signed into law. This legislation will significantly impact retirement benefits for employees who begin participating with KERS on or after September 1, 2008. The law also has a few provisions that will affect current employees and retirees. For those employees beginning participation on or after September 1, 2008 they will be required to contribute 6.00% of their annual covered salary, which includes a 1% pretax contribution to the KERS Insurance Fund. Employers, including KBN, will continue to be required to contribute an actuarially determined rate. House Bill 1 contained a provision expressing the intent of the General Assembly to gradually increase the employer contributions to KERS beginning July 1, 2010. The financial impact to KBN in these future years is not yet known.

Covered employees hired after December 31, 2013, are eligible to participate in a cash balance plan which requires employees to pay a pre-tax 5% rate based on creditable compensation. The employee's account is also credited with a 4% employer pay credit. In addition to the 5% contribution, all active employees participating on or after January 1, 2014 pay a 1% pretax contribution to KERS Insurance Fund. At the end of each fiscal year, interest is paid into the employee's account. The account is guaranteed 4% interest credit on the employee's account balance as of June 30 of the previous year. The employee's account may be credited with additional interest if the five-year average investment return exceeds 4%. At the time of termination, the employee is eligible to either take a refund of the accumulated account balance if vested (five or more years of service), or annuitize their account balance, if eligible for retirement. If the employee terminates employment and requests a refund prior to vesting, the employee is eligible only for the employee's contributions and associated interest, and forfeits the employer pay credit and associated interest.

**KENTUCKY BOARD OF NURSING
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2019
(Continued)**

Note 4 – Retirement Plans (Continued)

Ten-year historical trend information showing KERS progress in accumulating sufficient assets to pay benefits when due is presented in the KERS Annual Financial Report (which is a matter of public record). The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the Kentucky Employees Retirement System.

Because these financial statements are prepared on the modified cash basis, certain disclosures and financial statement accounts related to GASB 68 are not applicable and therefore not included in the financial statements or notes to the financial statements. For disclosures related to GASB 68, see the Commonwealth of Kentucky's Comprehensive Annual Financial Report.

**Kentucky Employees Retirement System
Governance KRS 61.510 through KRS 61.705
Cost Sharing Multiple Employer Defined Benefit
Non-Hazardous**

| | Tier 1 Participation Prior to 9/1/2008 | Tier 2 Participation 9/1/2008 through 12/31/2013 | Tier 3 Participation on or after 1/1/2014 |
|--|---|--|--|
| Covered Employees: | Substantially all regular full-time members employed in non-hazardous positions of any state department, board, or any agency directed by Executive Order to participate in the system. | | |
| Benefit Formula: | Final Compensation X Benefit Factor X Years of Service | | Cash Balance Plan |
| Final Compensation: | Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement). | 5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation. | No Final Compensation |
| Benefit Factor: | 1.97%, or 2.0% for those retiring with service for all months between 1/1998 and 1/1999. | 10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years). | No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance. |
| Cost of Living Adjustment (COLA): | No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier. | | |
| Unreduced Retirement Benefit: | Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest. | Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations. | |
| Reduced Retirement Benefit: | Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65 or has less than 27 years of service, whichever is smaller. | Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65, or does not meet the rule of 87 (age plus service) and is younger than age 57, whichever is smaller. | No reduced retirement benefit |

**KENTUCKY BOARD OF NURSING
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2019
(Continued)**

Note 4 – Retirement Plans (Continued)

In addition to the above defined benefit pension plan, the employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. For full details concerning these plans refer to Note 9 of the Commonwealth of Kentucky Comprehensive Annual Financial Report for the year ended June 30, 2019.

Note 5 – Other Post-employment Benefits

The Kentucky Employees Retirement System (KERS) Non-Hazardous Plan is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). It is a cost-sharing OPEB plan. Contribution rates for employer and employees are established by Kentucky Statutes. Members participating prior to September 2008 do not contribute to the OPEB plan directly; instead assets have been allocated between pension and retiree medical liabilities on the basis of accrued liability as of July 1, 2007. This amount has then been brought forward from that date based on actual cash flows and prorated allocation of investment returns. Members participating on or after September 2008 contribute 1% of their official salary. Employer contribution rates are actuarially determined and established in the Budget Bill.

Publicly available financial reports for the Kentucky Retirement Systems can be accessed at <https://kyred.ky.gov>.

Because these financial statements are prepared on the modified cash basis, certain disclosures and financial statement accounts related to GASB 75 are not applicable and therefore not included in the financial statements or notes to the financial statements. For disclosures related to GASB 75, see the Commonwealth of Kentucky's Comprehensive Annual Financial Report.

**KENTUCKY BOARD OF NURSING
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2019
(Continued)**

Note 5 – Other Post-employment Benefits (Continued)

Plan Administrator: The plan is administered by the Kentucky Employees Retirement System.

| | Participation prior to 7/1/2003 | | Participation between 7/1/2003 and 8/31/2008 | | Participation on or after 9/1/2008 | |
|---------------------------|--|-------------------|--|--------------------|---|----------------------|
| | Months of Service | % of premium paid | Months of Service | % of premium paid | Months of Service | Premium Payments |
| | <48 | 0% | Greater than or equal to | \$10 per month for | Greater than or equal | \$10 per month for |
| | 48 to 119 inclusive | 25% | 120 | each year of | to 180 | each year of service |
| Benefit Factor: | 120 to 179 inclusive | 50% | | service without | | without regard to a |
| | 180 to 239 inclusive | 75% | | regard to a | | maximum dollar |
| | 240 or more | 100% | | maximum dollar | | amount adjusted by |
| | | | | amount adjusted | | 1.5% annually |
| | | | | annually | | |
| Contribution Rate: | Contribution rates for the employer is actuarially determined. No member contribution. | | Contribution rates for the employer is actuarially determined. No member contribution. | | Contribution rates for the employers are actuarially determined. Member contribution of 1% of salary. | |

**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***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Board of Directors
Kentucky Board of Nursing

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 financial statement of the Kentucky Board of Nursing (KBN) as of and for the year ended June 30, 2019, and the related notes to the financial statement, which collectively comprise KBN's basic financial statement, and have issued our report thereon dated March 16, 2020.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KBN's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

March 16, 2020