

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

**For The Fiscal Year Ended
June 30, 2011**



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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administrative Cabinet
Honorable Kenneth Lyons, Nicholas County Judge/Executive
Members of the Nicholas County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Nicholas County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements.

We engaged Tichenor & Associates, LLP to perform the audit of these financial statements. We worked closely with the firm during our report review process; Tichenor & Associates, LLP, evaluated Nicholas County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NICHOLAS COUNTY FISCAL COURT

June 30, 2011

Tichenor & Associates, LLP has completed the audit of the Nicholas County Fiscal Court for the fiscal year ended June 30, 2011.

The financial statements of the Nicholas County Senior Citizens Center, a discretely presented component unit, have been audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Nicholas County Senior Citizens Center, is based on the report of the other auditors.

We have issued unqualified opinions, based on our audit and the reports of the other auditors, on the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Nicholas County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$5,719,716 as of June 30, 2011. The fiscal court had unrestricted net assets of \$499,657 in its governmental activities as of June 30, 2011. The fiscal court's discretely presented component unit had net assets of \$2,318 as of June 30, 2011. The discretely presented component unit had net cash and cash equivalents of \$4,326. The fiscal court had total debt principal as of June 30, 2011 of \$146,695 with \$82,131 due within the next year.

Report Comment:

2011-01 The County's Annual Financial Statement Does Not Meet Statutory Requirements

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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TICHENOR & ASSOCIATES, LLP
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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Kenneth Lyons, Nicholas County Judge/Executive

Members of the Nicholas County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Nicholas County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Nicholas County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Nicholas County Senior Citizens Center, a discretely presented component unit, which represents 100 percent of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Nicholas County Senior Citizens Center, is based on the report of the other auditors.

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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Nicholas County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Nicholas County, Kentucky, as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Kenneth Lyons, Nicholas County Judge/Executive
Members of the Nicholas County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated December 8, 2011 on our consideration of Nicholas County, Kentucky'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 and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2011-01 The County's Annual Financial Statement Does Not Meet Statutory Requirements

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Certified Public Accountants

December 8, 2011

NICHOLAS COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

Kenneth Lyons	County Judge/Executive
Mike Webb	Magistrate
Steve Hamilton	Magistrate
Jeff Randolph	Magistrate
Darvin Mitchell	Magistrate
Jimmy Wells	Magistrate

Other Elected Officials:

Dawn Letcher	County Attorney
Jeff Sidles	Sheriff
Doug Fryman	County Clerk
Sandye Watkins	Circuit Court Clerk
Darren Robinson	Jailer
Michelle McDonald	Property Valuation Administrator
Kevin Hatchett	Coroner

Appointed Personnel:

Wanda Dotson	County Treasurer
Dana Price	Occupational Tax Collector/Finance Officer

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**NICHOLAS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

June 30, 2011

NICHOLAS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Nicholas County Senior Citizens Center</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 675,768	\$ 4,326
Assets Held For Resale	102,859	
Investments	348,212	
Accounts Receivable		2,539
Total Current Assets	<u>1,126,839</u>	<u>6,865</u>
Noncurrent Assets:		
Capital Assets - Net of Accumulated Depreciation		
Land and Land Improvements	264,121	
Construction In Progress	32,185	
Buildings	2,169,559	
Equipment	295,560	
Vehicles	217,229	
Infrastructure	1,760,918	
Total Noncurrent Assets	<u>4,739,572</u>	
Total Assets	<u>5,866,411</u>	<u>6,865</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable		4,547
Financing Obligations	82,131	
Total Current Liabilities	<u>82,131</u>	<u>4,547</u>
Noncurrent Liabilities:		
Financing Obligations	64,564	
Total Noncurrent Liabilities	<u>64,564</u>	
Total Liabilities	<u>146,695</u>	<u>4,547</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	4,660,736	
Non-spendable:		
Knox Hospital Trust Fund	360,459	
Restricted For:		
Roads	118,296	
Social Services	21,312	
State Grants	59,256	
Unrestricted	499,657	2,318
Total Net Assets	<u>\$ 5,719,716</u>	<u>\$ 2,318</u>

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

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**NICHOLAS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

NICHOLAS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,067,514	\$ 14,831	\$ 366,391	\$
Protection to Persons and Property	366,010	42,873	204,069	
General Health and Sanitation	115,885	40,911	24,555	
Social Services	166,348			
Recreation and Culture	61,059			
Roads	836,723	4,844	922,144	185,065
Interest on Long-Term Debt	6,474			
	<u>2,620,013</u>	<u>103,459</u>	<u>1,517,159</u>	<u>185,065</u>
Component Unit:				
Nicholas County Senior Citizens Center	151,134		107,780	
Total Component Units	<u>\$ 151,134</u>	<u>\$ 0</u>	<u>\$ 107,780</u>	<u>\$ 0</u>

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Miscellaneous Revenues

Interest

Transfers From City/County

Contributions

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

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

NICHOLAS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government	Component Unit	
Governmental Activities	Nicholas County Senior Citizens Center	
\$ (686,292)	\$	
(119,068)		
(50,419)		
(166,348)		
(61,059)		
275,330		
(6,474)		
<u>(814,330)</u>		
	<u>(43,354)</u>	
	<u>(43,354)</u>	
268,350		
7,316		
61,033		
366,959		
60		
235,077		
99,621		
	34,500	
	<u>2,611</u>	
<u>1,038,416</u>	<u>37,111</u>	
224,086	(6,243)	
<u>5,495,630</u>	<u>8,561</u>	
<u>\$ 5,719,716</u>	<u>\$ 2,318</u>	

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

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NICHOLAS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

NICHOLAS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	<u>General Fund</u>	<u>Road Fund</u>	<u>Phase I Tobacco Fund</u>	<u>Mathers Educational Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 359,280	\$ 260,483	\$ 17,348	\$ 21,312
Investments				
Total Assets	<u>359,280</u>	<u>260,483</u>	<u>17,348</u>	<u>21,312</u>
FUND BALANCES				
Non-Spendable:				
Knox Hospital Trust Fund				
Restricted for:				
Roads		118,296		
Social Services				21,312
State Grants	41,908		17,348	
Assigned to:				
Protection to Persons and Property				
Roads		142,187		
Unassigned	<u>317,372</u>			
Total Fund Balances	<u>\$ 359,280</u>	<u>\$ 260,483</u>	<u>\$ 17,348</u>	<u>\$ 21,312</u>

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

NICHOLAS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Knox Hospital Trust Fund	Jail Fund	Total Governmental Funds
\$ 12,247	\$ 5,098	\$ 675,768
348,212		348,212
<u>360,459</u>	<u>5,098</u>	<u>1,023,980</u>
360,459		360,459
		118,296
		21,312
		59,256
	5,098	5,098
		142,187
		<u>317,372</u>
<u>\$ 360,459</u>	<u>\$ 5,098</u>	<u>\$ 1,023,980</u>

Reconciliation to Statement of Net Assets:

Total Fund Balances	\$ 1,023,980
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	7,241,570
Accumulated Depreciation	(2,501,998)
Assets Held For Resale Are Not Financial Resources And Therefore Are Not Reported In The Funds	102,859
Long-term Debt Is Not Due and Payable In The Current Period and, Therefore, Is Not Reported In the Funds.	
Financing Obligations	<u>(146,695)</u>
Net Assets Of Governmental Activities	<u>\$ 5,719,716</u>

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

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**NICHOLAS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

NICHOLAS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	General Fund	Road Fund	Phase I Tobacco Fund	Mathers Educational Fund
REVENUES				
Taxes	\$ 692,143	\$	\$	\$
Excess Fees	60			
Licenses and Permits	5,410			
Intergovernmental	195,191	1,103,268	324,000	
Charges for Services	82,306	4,844		
Miscellaneous	240,788	22,785		
Interest	9,545	11,678	5,782	44,465
Total Revenues	<u>1,225,443</u>	<u>1,142,575</u>	<u>329,782</u>	<u>44,465</u>
EXPENDITURES				
General Government	540,474	18,000		
Protection to Persons and Property	136,841			
General Health and Sanitation	137,819			
Social Services	44,002			119,645
Recreation and Culture	57,500			
Roads		824,416		
Debt Service	50,382	38,862		
Administration	220,687	170,595	411,379	2,161
Total Expenditures	<u>1,187,705</u>	<u>1,051,873</u>	<u>411,379</u>	<u>121,806</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>37,738</u>	<u>90,702</u>	<u>(81,597)</u>	<u>(77,341)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	116,792			
Transfers To Other Funds	(127,000)	(110,000)		
Total Other Financing Sources (Uses)	<u>(10,208)</u>	<u>(110,000)</u>		
Net Change in Fund Balances	27,530	(19,298)	(81,597)	(77,341)
Fund Balances - Beginning (Restated)	331,750	279,781	98,945	98,653
Fund Balances - Ending	<u>\$ 359,280</u>	<u>\$ 260,483</u>	<u>\$ 17,348</u>	<u>\$ 21,312</u>

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

NICHOLAS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

<u>Knox Hospital Trust Fund</u>	<u>Jail Fund</u>	<u>Total Governmental Funds</u>
\$	\$	\$ 692,143
		60
		5,410
	59,689	1,682,148
	13,994	101,144
		263,573
<u>27,828</u>	<u>323</u>	<u>99,621</u>
<u>27,828</u>	<u>74,006</u>	<u>2,844,099</u>
		558,474
	198,722	335,563
		137,819
		163,647
		57,500
		824,416
		89,244
<u>2,317</u>	<u>12,674</u>	<u>819,813</u>
<u>2,317</u>	<u>211,396</u>	<u>2,986,476</u>
<u>25,511</u>	<u>(137,390)</u>	<u>(142,377)</u>
	127,000	243,792
<u>(6,792)</u>	<u>(6,792)</u>	<u>(243,792)</u>
<u>(6,792)</u>	<u>127,000</u>	<u></u>
18,719	(10,390)	(142,377)
341,740	15,488	1,166,357
<u>\$ 360,459</u>	<u>\$ 5,098</u>	<u>\$ 1,023,980</u>

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

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**NICHOLAS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

NICHOLAS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (142,377)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	561,476
Depreciation Expense	(277,783)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligations Principal Payments	<u>82,770</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ 224,086</u></u>
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NICHOLAS COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

NICHOLAS COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	<u>Mathers Educational Trust Fund</u>
Assets	
Cash and Cash Equivalents	\$ 191,930
Equities in Common Stock	423,589
Mutual Funds - Fixed Income	929,995
Mutual Funds - Equity	<u>645,665</u>
Total Assets	<u>2,191,179</u>
Net Assets	
Held in trust for educational and other purposes	<u>\$ 2,191,179</u>

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

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**NICHOLAS COUNTY
STATEMENT OF CHANGES IN FUND NET ASSETS -
FIDUCIARY FUND - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

**NICHOLAS COUNTY
STATEMENT OF CHANGES IN FUND NET ASSETS -
FIDUCIARY FUND - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

	<u>Mathers Educational Trust Fund</u>
Additions	
Dividends	\$ 50,574
Gain on Sale of Investments	113,212
Other	<u>2,700</u>
Total Additions	<u>166,486</u>
Deductions	
Commissions and Fees	13,618
Benefit Payments	<u>42,956</u>
Total Deductions	<u>56,574</u>
Change In Net Assets	109,912
Net Assets Held In Trust	
Total Net Assets - Beginning	<u>2,081,267</u>
Total Net Assets - Ending	<u><u>\$ 2,191,179</u></u>

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

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TO THE FINANCIAL STATEMENTS**

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NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Nicholas County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Discretely Presented Component Unit

The component unit's column in the government-wide financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the Fiscal Court's primary government.

Nicholas County Senior Citizens Center - Title III B, C, and Homecare Program

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Unit (Continued)

Nicholas County Senior Citizens Center operates the Title III B, C, and Homecare Programs on behalf of the Nicholas County Fiscal Court. The Fiscal Court has contracted with the Bluegrass Area Development District to provide these programs. The Fiscal Court is responsible for appointing the Senior Citizens Center's Director. The Fiscal Court has the ability to significantly influence operations, select the governing authority, and participate in fiscal management and the scope of the public service of the Senior Citizens Center. The Senior Citizens Center is financially accountable to the Fiscal Court and cannot be named in any litigation without recourse to the Fiscal Court. This fiscal dependency requires the Fiscal Court to include the Senior Citizens Center as a component unit. The Senior Citizens Center is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Senior Citizens Center is presented discretely.

Audited financial statements for the Nicholas County Senior Citizens Center - Title III B, C, and Homecare Program, a discretely presented component unit, may be requested by contacting the Nicholas County Senior Citizens Center, 124 East Main Street, Carlisle, Kentucky 40311.

C. Nicholas County Elected Officials

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

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

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs. The County has no business-type activities.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and 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.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the financial statements. The County has no proprietary funds.

Governmental Funds

The government reports the following major governmental 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 source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

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

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Mathers Educational Fund - The primary purpose of this fund is to account for the distribution requirements of the Mathers Educational Trust Fund. The primary source of revenue for this fund is the income generated by the principal of the Trust Fund. The Trust Fund requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Knox Hospital Trust Fund - This fund was established to promote the general health and welfare of the people of Nicholas County, especially the employment of a health nurse. The Fiscal Court uses the income generated from the principal of the Trust through the General Fund for this purpose.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state government and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Special Revenue Funds:

The Road Fund, Phase I Tobacco Fund, Mathers Educational Fund, and Jail Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Permanent Fund:

The County has one permanent fund, the Knox Hospital Trust Fund. Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the county's programs. The trust fund is maintained by a third-party trustee who determines the investment portfolio of the fund.

Fiduciary Fund

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments and cannot be used to support the government's own programs. When these assets are held under the terms of a formal trust agreement, pension trust funds, investment trust funds, private-purpose trust funds, and agency funds are used.

The primary government reports the following fiduciary fund:

Mathers Educational Trust Fund - This private-purpose trust fund was established for educational expenses of Nicholas County school age children. The Fiscal Court awards the income generated from the principal of the Trust based upon applications received, less administrative costs. The trust fund is maintained by a third-party trustee who determines the investment portfolio of the fund.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Presentation of Component Unit

The financial statements present the following major discretely presented component unit: Nicholas County Senior Citizens Center - Title III B, C, and Homecare Program.

This component unit is reported on the Statement of Net Assets and the Statement of Activities in a separate total column that is labeled as "Component Unit" to emphasize this organization's separateness from the fiscal court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are 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.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, 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). Investments are recorded at cost and changes in fair market value of investments are not recorded in the financial statements.

F. Capital Assets

Capital assets, which include land, land improvements, construction in progress, buildings, vehicles, 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 in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10 - 60
Buildings	\$ 50,000	10 - 100
Building Improvements	\$ 25,000	10 - 100
Equipment	\$ 5,000	2 - 10
Vehicles	\$ 5,000	2 - 10
Infrastructure	\$ 25,000	5 - 50

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize 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 expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into nonspendable and spendable components, if applicable.

Nonspendable include amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

For resources considered assigned, the county has designated the County Treasurer to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting 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 expenditures 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. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Knox Hospital Trust Fund to be budgeted because the fiscal court does not approve the expenses of this fund.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

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 these criteria, Nicholas County has no organizations considered related organizations of the Nicholas County Fiscal Court.

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 upon these criteria, Nicholas County has no organizations considered jointly governed organizations of the Nicholas County Fiscal Court.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Venture, and Jointly Governed Organizations (Continued)

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, Nicholas County has no organizations considered jointly governed organizations of the Nicholas County Fiscal Court.

Note 2. Deposits and Investments

A. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risks - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposit may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2011 all deposits of the primary government and component unit were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

Interest Rate Risk

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

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Credit Risk

KRS 66.480 limits the County's investment in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency. Banker's acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of four specifically named investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. All investments of the County are reported in the Permanent Fund and Private Purpose Trust Fund and are maintained by third-party trustees bound by the legal restrictions established by the trust.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. As of June 30, 2011, the County's investments, held in the Permanent Fund and Private Purpose Trust Fund, were insured or registered or the securities were held by the County or by the County's agent in the County's name.

Types of Investments	Carrying Amount	Market Value	Concentration
Equities in Mutual Funds	\$ 842,291	\$ 996,976	0.36
Equities in Common Stocks	423,589	507,957	0.18
Fixed Income in Bond Funds	1,081,581	1,179,465	0.46
Totals	\$ 2,347,461	\$ 2,684,398	1.00

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

The following chart shows current cash and investments for the governmental and fiduciary activities. Discretely presented component units are not included in this chart.

Cash and Investment Summary As reported in the Statement of Net Assets and Statement of Fiduciary Net Assets	<u>Current Cash And Investments</u>
Governmental activities	\$ 360,459
Fiduciary activities	<u>2,191,179</u>
Total	<u>\$ 2,551,638</u>

Note 3. Interfund Transfers

The table below shows the interfund operating transfers for fiscal year 2011.

<u>Transfers In</u>	<u>Transfers Out</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Knox Hospital Trust Fund</u>
General Fund	\$	\$ 110,000	\$ 6,792
Jail Fund	127,000		
Total Transfers Out	<u>\$ 127,000</u>	<u>\$ 110,000</u>	<u>\$ 6,792</u>

Reasons for transfers:

- 1) To move resources from the General Fund, for budgetary purposes, to the fund that will expend them.
- 2) To move resources to the General Fund for Road Fund related administrative expenditures.
- 3) To record Knox Hospital Trust Fund income that was distributed to the county.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 264,121	\$	\$	\$ 264,121
Construction In Progress	212,147	32,185	212,147	32,185
Total Capital Assets Not Being Depreciated	476,268	32,185	212,147	296,306
Capital Assets, Being Depreciated:				
Buildings	2,203,933	336,080		2,540,013
Equipment	904,542	20,684		925,226
Vehicles	675,036	25,990		701,026
Infrastructure	2,420,315	358,684		2,778,999
Total Capital Assets Being Depreciated	6,203,826	741,438		6,945,264
Less Accumulated Depreciation For:				
Buildings	(332,655)	(37,799)		(370,454)
Equipment	(610,415)	(19,251)		(629,666)
Vehicles	(469,616)	(14,181)		(483,797)
Infrastructure	(811,529)	(206,552)		(1,018,081)
Total Accumulated Depreciation	(2,224,215)	(277,783)		(2,501,998)
Total Capital Assets, Being Depreciated, Net	3,979,611	463,655		4,443,266
Governmental Activities Capital Assets, Net	\$ 4,455,879	\$ 495,840	\$ 212,147	\$ 4,739,572

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 26,898
Protection to Persons and Property	17,773
General Health and Sanitation	7,934
Social Services	540
Recreation and Culture	3,559
Roads, Including Depreciation of General Infrastructure Assets	221,079
Total Depreciation Expense - Governmental Activities	\$ 277,783

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt

A. Courthouse Renovation

Nicholas County Fiscal Court entered into a lease agreement for \$291,000 with the Kentucky Association of Counties Leasing Trust Program, for courthouse renovation, on September 24, 1997. Payments are due monthly and are calculated annually based on the outstanding principal, variable interest rate, and associated fees. The lease is to be paid in full on October 1, 2012. The outstanding principal as of June 30, 2011 was \$32,409. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2012	\$ 843	\$ 25,704
2013	46	6,705
Total	<u>\$ 889</u>	<u>\$ 32,409</u>

B. Courthouse Renovation - AOC

Nicholas County Fiscal Court entered into a lease agreement for \$44,984 with the Administrative Office of the Courts (AOC), for courthouse renovation, on September 26, 2005. This lease has a 0% interest rate. Payments are withdrawn quarterly from rental receipts due to the Nicholas County Fiscal Court from AOC. The lease is to be paid in full on June 30, 2012. The outstanding principal as of June 30, 2011 was \$6,427. Future lease principal requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Principal</u>
2012	<u>\$ 6,427</u>
Total	<u>\$ 6,427</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

C. Mack Truck

Nicholas County Fiscal Court entered into a lease agreement for \$102,859 with the Kentucky Association of Counties Leasing Trust Program, for a Mack dump truck, on February 17, 2009. Interest payments are due monthly and are calculated annually based on the outstanding principal, variable interest rate, and associated fees. Principal payments began on January 20, 2011. The lease is to be paid in full on January 20, 2013. The lease balance as of June 30, 2011 was \$67,859.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2012	\$ 2,471	\$ 35,000
2013	944	32,859
Total	<u>\$ 3,415</u>	<u>\$ 67,859</u>

D. Ambulance

Nicholas County Fiscal Court entered into a lease agreement for \$70,000 with the Kentucky Association of Counties Leasing Trust Program, for an ambulance, on July 29, 2009. Interest payments are due monthly and are calculated annually based on the outstanding principal, variable interest rate, and associated fees. Principal payments began on March 20, 2011. The lease is to be paid in full on March 20, 2014. The lease balance as of June 30, 2011 was \$40,000.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2012	\$ 1,763	\$ 15,000
2013	1,126	15,000
2014	486	10,000
Total	<u>\$ 3,375</u>	<u>\$ 40,000</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 229,465	\$ 0	\$ 82,770	\$ 146,695	\$ 82,131
Governmental Activities					
Long-term Liabilities	<u>\$ 229,465</u>	<u>\$ 0</u>	<u>\$ 82,770</u>	<u>\$ 146,695</u>	<u>\$ 82,131</u>

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. 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.

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 the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

The county's contribution for FY 2009 was \$122,625, FY 2010 was \$143,026, and FY 2011 was \$124,836.

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 (members 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.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Employee Retirement System (Continued)

CERS also provides post retirement health care coverage as follows:

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

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, 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.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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.

Note 7. Deferred Compensation

The Nicholas County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits 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 Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2011, Nicholas County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Change in Accounting Principles

The Nicholas County Fiscal Court implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classifications of fund balance on the Balance Sheet - Governmental Funds. The implementation also resulted in one fund previously presented as special revenue funds that no longer meet the definition to be rolled into the General Fund.

As a result, beginning Fund Balance for the General Fund has been increased for the addition of the previously reported Landfill Fund. The effect of the change is a total increase of \$5,676 in the General Fund.

Note 10. Prior Period Adjustment

The beginning net assets balance for governmental activities of \$5,495,630 includes an adjustment of \$9,742. The adjustment is to eliminate a Debt Service account that has been dormant since November 2003, and the funds were returned to the Office of the Controller on October 18, 2011 as unclaimed funds.

	Governmental Activities
Beginning Balance - Net Assets	\$ 5,505,372
Debt Service Fund -	
Dormant funds returned to Office of the Controller	<u>(9,742)</u>
Total Restated Beginning Balance -	
Net Assets	<u><u>\$ 5,495,630</u></u>

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

	GENERAL FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 607,000	\$ 607,000	\$ 692,143	\$ 85,143
Excess Fees			60	60
Licenses and Permits	7,000	7,000	5,410	(1,590)
Intergovernmental Revenue	90,850	90,850	188,765	97,915
Charges for Services	34,400	34,400	41,610	7,210
Miscellaneous	42,350	42,350	234,008	191,658
Interest	20,000	20,000	9,368	(10,632)
Total Revenues	<u>801,600</u>	<u>801,600</u>	<u>1,171,364</u>	<u>369,764</u>
EXPENDITURES				
General Government	361,609	578,519	540,474	38,045
Protection to Persons and Property	133,237	148,846	136,841	12,005
General Health and Sanitation	17,092	98,605	56,220	42,385
Social Services	113,208	113,880	44,002	69,878
Recreation and Culture	57,500	57,500	57,500	
Debt Service	90,000	49,692	43,956	5,736
Administration	235,587	239,235	210,273	28,962
Total Expenditures	<u>1,008,233</u>	<u>1,286,277</u>	<u>1,089,266</u>	<u>197,011</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(206,633)</u>	<u>(484,677)</u>	<u>82,098</u>	<u>566,775</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	40,000	40,000		(40,000)
Transfers From Other Funds	110,546	110,546	116,792	6,246
Transfers To Other Funds	(198,913)	(198,913)	(173,000)	25,913
Total Other Financing Sources (Uses)	<u>(48,367)</u>	<u>(48,367)</u>	<u>(56,208)</u>	<u>(7,841)</u>
Net Changes in Fund Balance	(255,000)	(533,044)	25,890	558,934
Fund Balance - Beginning	255,000	533,044	326,074	(206,970)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 351,964</u>	<u>\$ 351,964</u>

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 740,510	\$ 740,510	\$ 1,103,268	\$ 362,758
Charges for Services	2,000	2,000	4,844	2,844
Miscellaneous	7,500	7,500	22,785	15,285
Interest	7,000	7,000	11,678	4,678
Total Revenues	<u>757,010</u>	<u>757,010</u>	<u>1,142,575</u>	<u>385,565</u>
EXPENDITURES				
General Government	18,000	18,000	18,000	
Roads	521,874	927,077	824,416	102,661
Debt Service	40,000	40,000	38,862	1,138
Capital Projects	7,500	7,500		7,500
Administration	359,090	332,882	170,595	162,287
Total Expenditures	<u>946,464</u>	<u>1,325,459</u>	<u>1,051,873</u>	<u>273,586</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(189,454)</u>	<u>(568,449)</u>	<u>90,702</u>	<u>659,151</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(110,546)	(110,546)	(110,000)	546
Total Other Financing Sources (Uses)	<u>(110,546)</u>	<u>(110,546)</u>	<u>(110,000)</u>	<u>546</u>
Net Changes in Fund Balance	(300,000)	(678,995)	(19,298)	659,697
Fund Balance - Beginning	<u>300,000</u>	<u>678,995</u>	<u>279,781</u>	<u>(399,214)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 260,483</u>	<u>\$ 260,483</u>

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	PHASE I TOBACCO FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 372,000	\$ 372,000	\$ 324,000	\$ (48,000)
Interest	3,000	3,000	5,782	2,782
Total Revenues	<u>375,000</u>	<u>375,000</u>	<u>329,782</u>	<u>(45,218)</u>
EXPENDITURES				
Administration	375,000	375,000	411,379	(36,379)
Total Expenditures	<u>375,000</u>	<u>375,000</u>	<u>411,379</u>	<u>(36,379)</u>
Net Changes in Fund Balance			(81,597)	(81,597)
Fund Balance - Beginning			<u>98,945</u>	<u>98,945</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 17,348</u>	<u>\$ 17,348</u>

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	MATHERS EDUCATIONAL FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ 32,500	\$ 32,500	\$ 44,465	\$ 11,965
Total Revenues	<u>32,500</u>	<u>32,500</u>	<u>44,465</u>	<u>11,965</u>
EXPENDITURES				
Social Services	117,464	124,190	119,645	4,545
Administration	12,036	18,266	2,161	16,105
Total Expenditures	<u>129,500</u>	<u>142,456</u>	<u>121,806</u>	<u>20,650</u>
Net Changes in Fund Balances	(97,000)	(109,956)	(77,341)	32,615
Fund Balances - Beginning	<u>97,000</u>	<u>109,956</u>	<u>98,653</u>	<u>(11,303)</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 21,312</u>	<u>\$ 21,312</u>

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 58,017	\$ 58,017	\$ 59,689	\$ 1,672
Charges for Services	10,620	10,620	13,994	3,374
Interest	500	500	323	(177)
Total Revenues	<u>69,137</u>	<u>69,137</u>	<u>74,006</u>	<u>4,869</u>
EXPENDITURES				
Protection to Persons and Property	206,680	207,613	198,722	8,891
Administration	14,400	13,467	12,674	793
Total Expenditures	<u>221,080</u>	<u>221,080</u>	<u>211,396</u>	<u>9,684</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(151,943)</u>	<u>(151,943)</u>	<u>(137,390)</u>	<u>14,553</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	148,843	148,843	127,000	(21,843)
Total Other Financing Sources (Uses)	<u>148,843</u>	<u>148,843</u>	<u>127,000</u>	<u>(21,843)</u>
Net Changes in Fund Balance	(3,100)	(3,100)	(10,390)	(7,290)
Fund Balance - Beginning	3,100	3,100	15,488	12,388
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,098</u>	<u>\$ 5,098</u>

NICHOLAS COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Budgetary Information

Annual budgets are adopted on a cash basis of accounting 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 expenditures 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. Expenditures may not exceed budgeted appropriations at the activity level.

**Reconciliation To The Statement of Revenues, Expenditures, and Changes
In Fund Balances - Governmental Funds - Modified Cash Basis**

General Fund

	Revenues	Expenditures
Total - Budgetary Comparison Schedule	\$ 1,171,364	\$ 1,089,266
Revenues and Expenditures in Landfill Fund that was included in the General Fund due to the implementation of GASB 54.	47,653	92,013
Administrative Office of the Courts (AOC) deducts the County's debt service payment for courthouse renovations from AOC's courthouse rental payments to the County.	6,426	6,426
Total - Statement of Revenues, Expenditures, and Changes In Fund Balances	\$ 1,225,443	\$ 1,187,705
		Other Financing Sources (Uses)
Total - Budgetary Comparison Schedule		\$ (56,208)
Transfers from the General Fund to the Landfill Fund that were not included in the Statement of Revenues, Expenditures, and Changes in Fund Balance due to the implementation of GASB 54.		46,000
Total - Statement of Revenues, Expenditures, and Changes In Fund Balances		\$ (10,208)
		Fund Balance Beginning
Total - Budgetary Comparison Schedule		\$ 326,074
Landfill Fund included in the General Fund due to the implementation of GASB 54.		5,676
Total - Statement of Revenues, Expenditures, and Changes In Fund Balances		\$ 331,750

**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**

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The Honorable Kenneth Lyons, Nicholas County Judge/Executive
Members of the Nicholas County Fiscal Court

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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Nicholas County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 8, 2011. Nicholas County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Our report was modified to include a reference to the report of other auditors. We conducted our audit 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. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of Nicholas County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Nicholas County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nicholas County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Nicholas County's internal control over financial reporting.

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 statements will not be prevented, or detected and corrected on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 the Nicholas County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation as item 2011-01.

The Nicholas County Judge/Executive's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Certified Public Accountants

December 8, 2011

**NICHOLAS COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2011

**NICHOLAS COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2011

STATE LAWS AND REGULATIONS

2011-01 The County's Annual Financial Statement Does Not Meet Statutory Requirements

The county's annual financial statement does not meet statutory requirements. The county used their fourth quarter financial statement as their financial statement and attached a summary of expenditures. KRS 424.220 requires public officers who receive or disburse public funds to prepare an itemized, sworn statement of all funds collected, received, held, or disbursed during the fiscal year.

The financial statement is required to show the:

- Total amount collected and received from each individual source.
- Total amount of funds disbursed to each individual payee and the purpose for which expended. The amount of salaries paid to all non-elected county employees can be shown as lump sum expenditures by category.

The financial statement must also have attached:

- Certificate from the cashier or other proper officer from the banks in which the funds are or have been deposited during the past year, showing the balance, if any, of funds to the credit of the officer making the statement.
- Factual list of individual salaries is required to be prepared and available for public scrutiny and furnished by mail to the newspaper which may publish the list as a news item.

We recommend that the county prepare an accurate financial statement in the future.

County Judge/Executive Kenneth Lyons' Response: I will work with the County Treasurer to get this corrected.

