

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

**For The Fiscal Year Ended
June 30, 2008**



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CRIT LUALLEN
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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Dean Watts, Nelson County Judge/Executive

Members of the Nelson County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Nelson County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements.

We engaged Percy and Gray, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC evaluated the Nelson County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script that reads "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NELSON COUNTY FISCAL COURT

June 30, 2008

Peercy and Gray, PSC has completed the audit of the Nelson County Fiscal Court for fiscal year ended June 30, 2008.

We have issued unqualified opinions on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Nelson County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$41,010,851 as of June 30, 2008. The fiscal court had unrestricted net assets of \$615,226 in its governmental activities as of June 30, 2008, with total net assets for governmental activities of \$28,331,790. In its business-type activities, total net cash and cash equivalents were \$88,156 with total net assets of \$12,679,061. The fiscal court had total debt principal as of June 30, 2008, of \$13,466,918 with \$577,975 due within the next year.

Report Comments:

- The County Lacks Adequate Segregation of Duties Over Occupational License Fee Receipts
- The County Should Enter Into Written Agreements With Depository Institutions Stating Collateral Will Be Pledged To Protect Deposits

Deposits:

The fiscal court's deposits as of August 31, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$841,972

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
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Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Nelson County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Nelson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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, Nelson 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Nelson County, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund, road fund, jail fund, and occupational license fee fund, for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
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Members of the Nelson County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nelson County, Kentucky's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 8, 2008 on our consideration of Nelson 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 present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Lacks Adequate Segregation Of Duties Over Occupational License Fee Receipts
- The County Should Enter Into Written Agreements With Depository Institutions Stating Collateral Will Be Pledged To Protect Deposits

Respectfully submitted,



Percy and Gray, PSC

December 8, 2008

NELSON COUNTY OFFICIALS

For The Year Ended June 30, 2008

Fiscal Court Members:

County Judge/Executive	Dean Watts
Magistrate	Jerry Hahn
Magistrate	Tim Hutchins
Magistrate	Sam Hutchins
Magistrate	Maynard Wimsatt
Magistrate	Bernard Ice

Other Elected Officials:

County Attorney	John Kelley, Jr.
County Clerk	Phyllis Mattingly
Sheriff	Mike Newton
Jailer	Dorcas Figg
Property Valuation Administrator	Barbara Tichenor
Coroner	Field Houghlin

Appointed Personnel:

County Treasurer	Rhonda Fenwick, CPA
Occupational Tax Administrator	Teresa Haffner
Personnel/Payroll Officer	Greta Cecil

COUNTY OF NELSON, KENTUCKY**MANAGEMENT'S DISCUSSION AND ANALYSIS****JUNE 30, 2008**

Nelson County officials have prepared this narrative to explain, in simpler terms, some of the more important issues in our financial statements. We have presented an overview of the County's financial activities for the fiscal year ended June 30, 2008, within the limitations of the County's modified cash basis of accounting. Please read it along with the County's financial statements that begin on page 18.

FINANCIAL HIGHLIGHTS

- The County's net assets declined 4% or \$1.9 million as costs of services increase faster than revenues.
- Overall, total revenues decreased 2.8% and expenses decreased 2.5%, which caused the continuing decline in net assets.
- State grant funding in total decreased \$12.6 million, but road grants increased \$190,000 from the prior year. Net assets are also declining because depreciation expenses are higher than the County's investment in new assets.
- Property tax revenues increased 5% overall due to an increase in property tax rates, as well as steady growth in residential and commercial property values.
- Current assets decreased 2.5%, and long-term debt decreased 6.3% as the County used cash reserves to pay for the increased costs of services.
- Significant grant projects include a pass-through grant to the new E-911 Central Dispatch Office for equipment and start up costs.
- Cash reserves were transferred from Landfill, Solid Waste and OLF funds at year end to temporarily fund infrastructure improvements at Nelson Industrial park while the County awaits grant fund reimbursement from the Kentucky Infrastructure Authority. These funds (\$550,000) were received in July 2008.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB), as applicable to the County's modified cash basis of accounting. The modified cash basis of accounting does not accrue revenues or expenses that do not generate or use cash. Capital assets and long-term debt include cash transactions and developer contributions for road construction that is accepted into the County Road system.

Report Components

This annual report includes five parts as follows:

Government-Wide Financial Statements: The Statement of Net Assets (page 18) and the Statement of Activities (page 20) provide information about the activities of the County government-wide (or "as a whole") and present a longer-term view of the County's finances. Capital assets are added to the cash balances in these statements to highlight resources that will provide future services. In addition, long-term debt is included to outline commitments against future resources.

Fund Financial Statements: The fund financial statements (starting on page 23) focus on the individual segments of the County government. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's individual funds. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains for future spending. For *proprietary activities*, these statements offer short-term *and* long-term financial information about the activities the County operates like businesses, such as EMS, landfill, and solid waste collections.

Fund financial statements focus on *major* funds, those funds that represent significant components of assets. In the governmental category, the General Fund, County Road Aid, Jail, and the Occupational License Fee Fund are classified as major because these funds report significant segments of the governmental

Nelson County, Kentucky
 Management's Discussion & Analysis
 For The Year Ended June 30, 2008
 (Continued)

activities. Details about these funds are reported on pages 23 through 27. LGEA and Federal & State Grants are classified as non-major. Details for these funds can be found on pages 64 through 66.

In the business-type activities, the EMS, Solid Waste, Landfill Funds, and PIC are classified as major, reported on pages 31 through 35.

Budgetary Comparisons: Major governmental fund budgetary comparisons have been included with the basic financial statements and are presented on pages 31 through 34.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements. Notes begin on page 47.

Required Supplementary Information: The Management's Discussion and Analysis represent financial information that GASB requires in our presentation of the annual financial report. In a narrative format, this section provides users with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

Supplementary Information: We have also included Combining Statements for the nonmajor funds on pages 64 through 66 and Budgetary Comparison Schedules for the nonmajor governmental funds and all proprietary funds on pages 68 through 72. These schedules are not required by GASB, but they do demonstrate compliance with the provisions of the budget ordinances adopted by the Nelson County Fiscal Court.

Basis of Accounting

Nelson County's financial statements are presented in accordance with the modified cash basis of accounting. Nelson County follows the accounting system outlined by the Kentucky State Local Finance Officer in the County Uniform System of Accounts Policy Manual but modifies its financial statements to present capital assets. This modified cash basis of accounting differs from generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions. Developer contributions for additional capital assets are recorded in the government-wide statements to provide a more complete inventory of county roads. Depreciation for capital assets is also reported in the government-wide financial statements for all activities and in the fund financial statements for proprietary fund activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the County "as a Whole"

The County's Reporting Entity Presentation

This annual report includes all activities for which the Nelson County Fiscal Court is fiscally responsible. These activities, defined as the County's reporting entity, are operated within separate legal entities that make up the primary government. While several related governmental organizations exist in Nelson County, the county government is not fiscally responsible for entities other than the Public Properties Corporation and the Public Improvement Corporation. Those corporations are included in the primary government's PIC fund.

Nelson County, Kentucky
 Management's Discussion & Analysis
 For The Year Ended June 30, 2008
 (Continued)

The Government-Wide Statement of Net Assets and the Statement of Activities

The financial schedules of the County as a whole begin on page 18. The government-wide financial statements are presented on pages 18 through 21. One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all of the County's assets and liabilities resulting from the use of the modified cash basis of accounting.

These two statements report the County's net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the County's net assets—the difference between assets and liabilities—as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the property tax base, economic development, and the condition of the County's roads, to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities, we divide the County into two kinds of activities:

Governmental activities. Most of the County's basic services are reported here, including the jail, county police, general administration, streets, parks, social services, as well as the state and federal grants. Property taxes, the occupational license fee, and various fees finance these operations.

Business-type activities. The County charges a fee to customers to help cover all or most of the cost of certain services. The County's Solid Waste, Landfill, Ambulance Service, and Public Improvements Corporation are reported here.

Reporting the County's Most Significant Funds

The Fund Financial Statements

Our analysis of the County's major funds begins on page 12. The fund financial statements begin on page 23 and provide detailed information about the most significant funds—not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the Fiscal Court establishes certain other funds to help it control and manage money for specific activities or to show that it is meeting legal responsibilities for using certain taxes, grants, and other funds. The County's two kinds of funds—*governmental* and *proprietary*—use different accounting approaches.

Governmental funds—Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. In Nelson County, these funds include General, County Road Aid, Local Government Economic Assistance, Jail, Occupational License Fee, and Federal & State Grant Funds. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. If you review the changes to fund balance, you can determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We outline the differences (generally capital assets, depreciation, and long-term debt) between the governmental activities in the government-wide statements and the governmental fund statements with a schedule at the end of the governmental fund statements.

Proprietary funds—When the County charges customers for the services, these services are generally reported in proprietary funds. In Nelson County, these funds include the Ambulance Service, Solid Waste, Landfill, Public Improvement Corporations, and Jail Canteen. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. For example, proprietary fund capital assets are capitalized and depreciated while principal payments on long-term debt are recorded as a reduction to the liability. In fact, the county's proprietary fund financial statements are essentially the same as the business-type activities in the government-wide statement with more individual fund detail and the cash flow statement.

Agency Fund—Nelson County acts as administrator for the Hazardous Materials Region 5 Response Team. Region Five's cash balances are presented as an agency fund.

A FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets—Modified Cash Basis

You can find the Statement of Net Assets on page 18. Net assets as of June 30, 2008 are summarized below. Balances for June 30, 2007 are also presented to provide a two-year comparison.

Table 1
Net Assets of Governmental and Business-Type Activities
June 30, 2008

	2008			2007
	Governmental Activities	Business-type Activities	Total Primary Government	Total Primary Government
Current and other assets	\$ 813,428	\$ 5,492,353	\$ 6,305,781	\$ 7,947,817
Capital assets	28,667,362	19,613,626	48,280,988	49,512,740
Total assets	29,480,790	25,105,979	54,586,769	57,460,557
Long-term debt outstanding	1,040,000	12,426,918	13,466,918	14,376,647
Other liabilities	109,000		109,000	113,000
Total liabilities	1,149,000	12,426,918	13,575,918	14,489,647
Net assets:				
Invested in capital assets, net of debt	27,627,362	10,044,365	37,671,727	38,311,267
Restricted	89,202	2,402,720	2,491,922	2,345,630
Unrestricted	615,226	231,976	847,202	2,314,013
Total Net Assets	\$ 28,331,790	\$ 12,679,061	\$ 41,010,851	\$ 42,970,910

Restricted governmental funds are reserved for road improvements in accordance with state requirements for the County Road Aid and Local Government Economic Assistance statutes. \$2.4 million has been set aside in the Landfill Fund to provide for the costs to close and monitor the landfill.

Outstanding debt is still only about 29% of the net value of capital assets. Debt service for the Industrial Park property will be provided by land sales as the Park is developed. The largest outstanding debt balance was incurred to finance the Justice Center, which is leased by the Commonwealth of Kentucky for district and circuit court facilities. Therefore, the Commonwealth is responsible for \$9.3 million of the total \$13.5 million in debt (or 69% of the outstanding long-term debt).

Nelson County, Kentucky
 Management's Discussion & Analysis
 For The Year Ended June 30, 2008
 (Continued)

Changes in Net Assets—Modified Cash Basis

You can find the Statement of Activities on pages 20 and 21. For the year ended June 30, 2008, net assets of the primary government (resulting from modified cash basis transactions) changed as follows:

Table 2
Operating Results for the Year Ended June 30, 2008

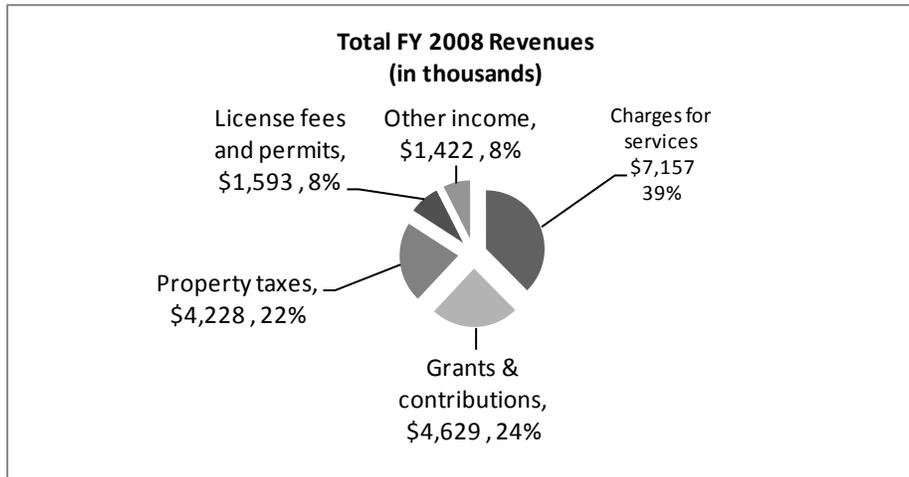
	2008			2007
	Governmental Activities	Business-type Activities	Total Primary Government	Total Primary Government
Revenues:				
Program revenues:				
Charges for services	\$ 609,840	\$ 6,547,228	\$ 7,157,068	\$ 6,910,767
Grant funding	3,144,911	819,175	3,964,086	5,228,420
Capital contributions	665,275		665,275	809,340
General revenues:				
Property taxes	4,227,635		4,227,635	4,011,811
Transient room tax	141,893		141,893	138,487
License fees and permits	1,592,618		1,592,618	1,531,612
Interest and investment earnings	74,261	88,993	163,254	153,947
Gain (loss) on sale of capital assets		(42,534)	(42,534)	3,172
Miscellaneous	188,555	477,955	666,510	282,584
Total Revenues	10,644,988	7,890,817	18,535,805	19,070,140
Program Expenses:				
General government	2,778,683	1,393,028	4,171,711	3,896,355
Public Protection	2,833,613	2,357,845	5,191,458	4,915,344
Recreation	602,350	465,434	1,067,784	2,023,268
Road maintenance	4,786,745		4,786,745	4,533,173
General health & sanitation	636,098	4,193,775	4,829,873	5,203,411
Social services	150,172		150,172	136,296
Transportation	248,121		248,121	254,142
Total Expenses	12,035,782	8,410,082	20,445,864	20,961,989
Excess (deficiency) before transfers and special items	(1,390,794)	(519,265)	(1,910,059)	(1,891,849)
Transfers	(24,983)	24,983		
Increase (decrease) in net assets	\$ (1,415,777)	\$ (494,282)	\$ (1,910,059)	\$ (1,891,849)

In total, charges for services increased slightly from 2007 to 2008. Solid waste collection fees and ambulance service revenues increased 3% and 5% respectively. However, landfill revenues continue to decline with the housing construction market.

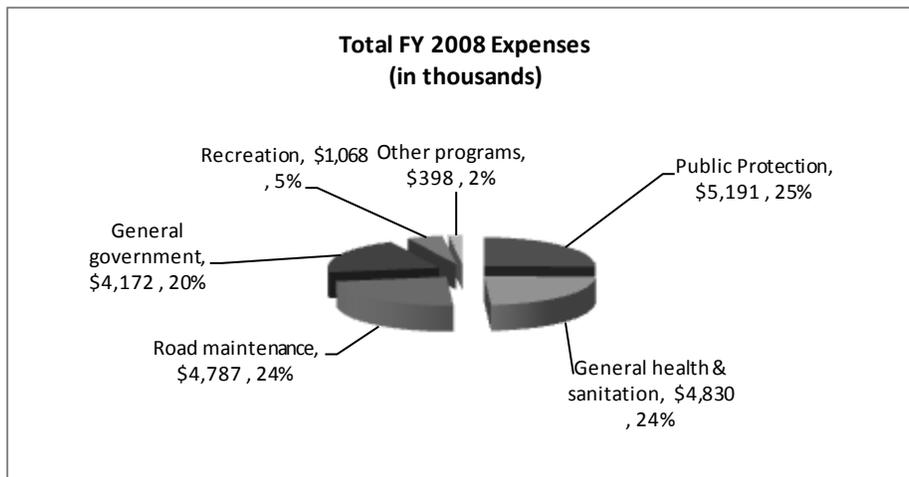
Grant funding decreased due to two specific projects that were completed in FY 2007: the Kentucky Railway Museum (recreation expenses include this pass-through grant) and the Industrial Park water tank construction (costs are reported in General Health & Sanitation).

Nelson County, Kentucky
 Management's Discussion & Analysis
 For The Year Ended June 30, 2008
 (Continued)

Property taxes are only 22% of total revenues and fund only 35% of governmental operations. The occupational license fee contributes additional funding (\$1,103,000) for both governmental and proprietary activities. \$275,000 is used to subsidize EMS operations and the balance is used for jail and road maintenance. Charges for services provide 39% of the County's financial resources. These ratios emphasize that the County relies heavily on charges for service to fund operations, while property taxes and occupational license fee provide significantly smaller portions. Property taxes (\$4.2 million) and operating grant revenues (\$4.6million) contribute substantially the same portion to fund operations.

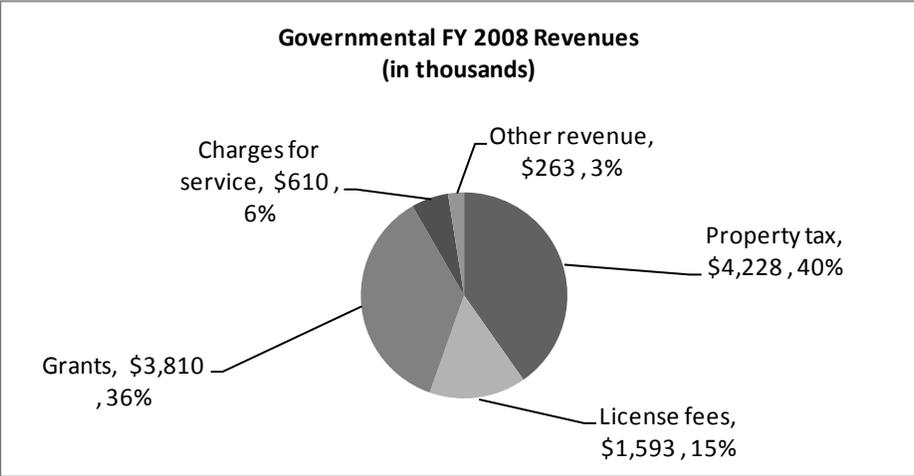


24% of Nelson County's total expenses are incurred for road improvements and maintenance. Ambulance, Jail, and Law Enforcement account for 25%, while the Solid Waste and Landfill are 24% of the total. General government expenses include costs to help support the Planning & Zoning administration, County Attorney, Coroner, Property Valuation Administration, Justice Center maintenance, and county building maintenance, as well as the administrative staff and certain fringe benefit costs for county government.

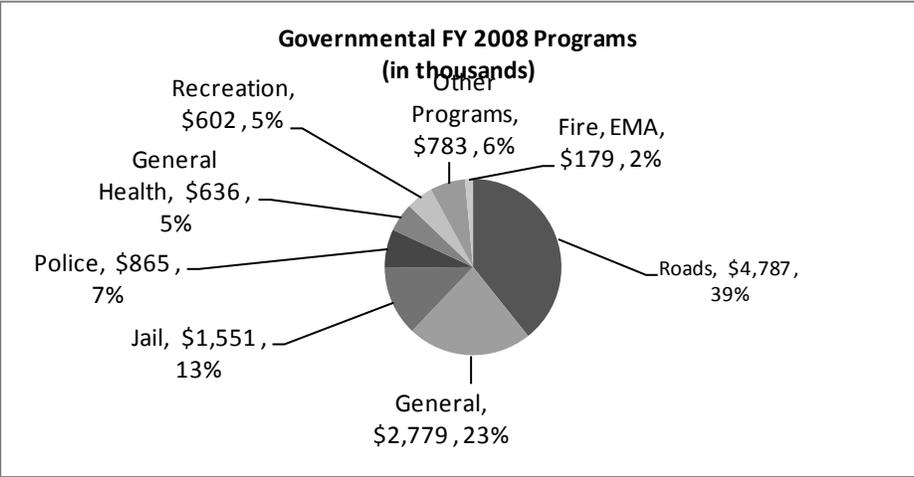


Governmental Activities

Property tax and the occupational license fee provide 55% of the resources for governmental services. Recurring intergovernmental revenues include excess fees transferred from the Sheriff and County Clerk (\$572,520), State Road Aid (\$1.8 million) and a variety of other state revenue sharing programs. License fees include the deed tax (\$134,160), code enforcement fees (\$283,141), and the occupational license fee (\$1,103,654). Occupational license fees increased 7% over the prior year; however the decrease in other license fee revenue reflects the slowdown in the economy, especially with housing construction.



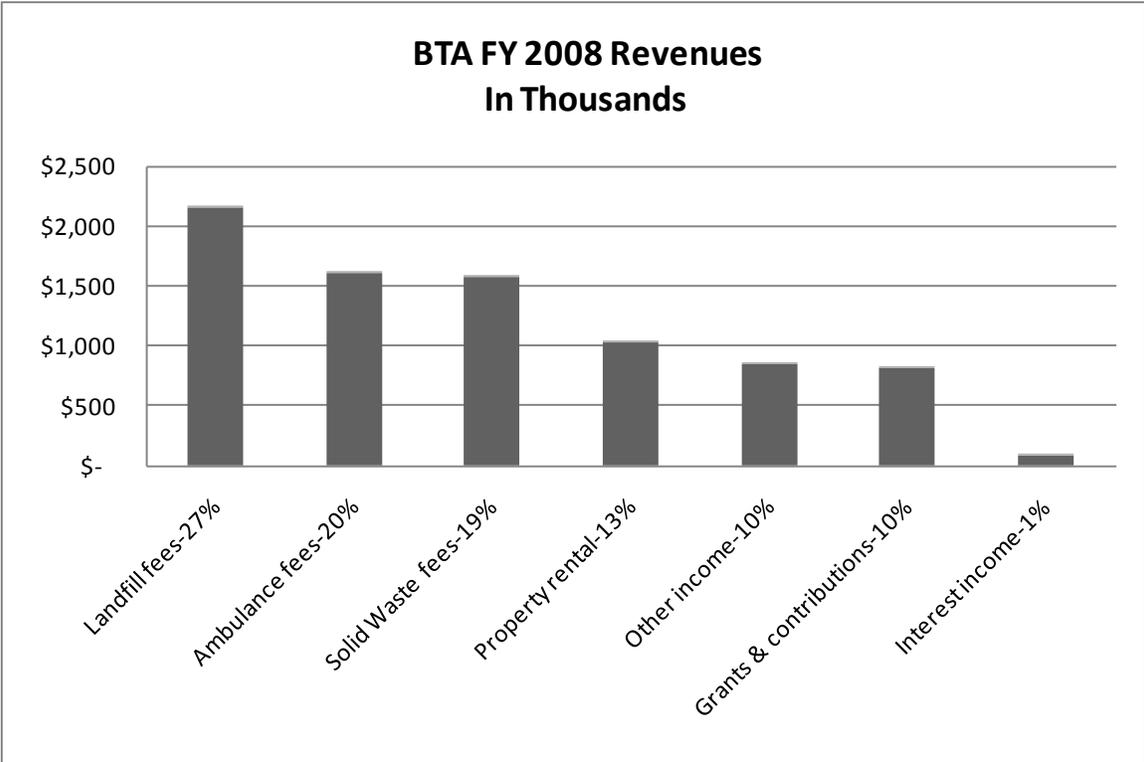
Governmental expenses use these resources for a wide variety of programs. Roads (39%) are, of course, the major program. Additional services include the Jail (13%), County Police (7%), Recreation (5%), and other programs. Other public safety programs include building inspection and contributions to local fire departments. General Health and Safety includes the Division of Animal Control and the subsidy to the County Health Department.

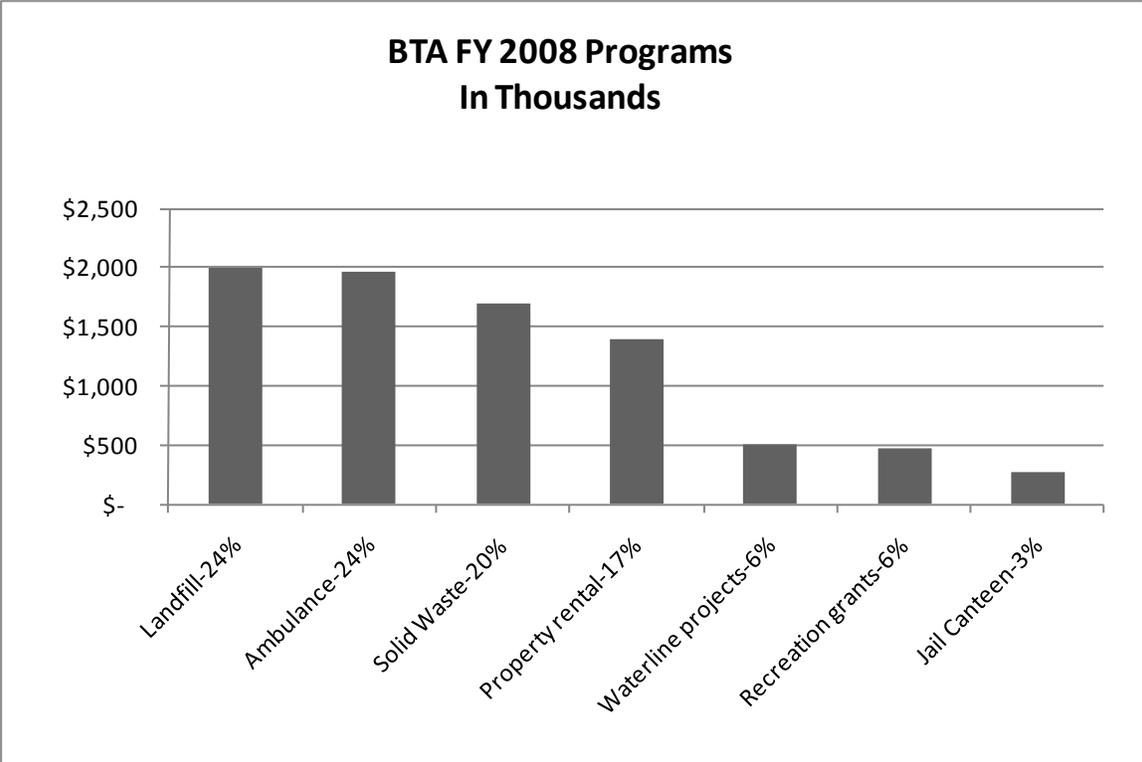


Overall, governmental activities resulted in a decrease in net assets of nearly \$1.5 million as increases in demands for service outpaces revenue growth.

Business-Type Activities

Generally, charges for services are the largest resource in the business-type activities. In FY 2008, the landfill generated 27% of the total proprietary revenues, ambulance 20%, solid waste collection 19%, and property management represented 13%. Ambulance revenues benefited from the rate increases approved by Medicare.





The program analysis, however, indicates that Landfill and Ambulance costs are the largest component (24%) and explains the \$265,000 subsidy from OLF for this service. Landfill and solid waste collections usually generate profits that are set aside for future capital asset investments within these programs. Solid Waste program expenses were higher than current year revenues for FY 2008, with the increase related to fuel and repair expenditures.

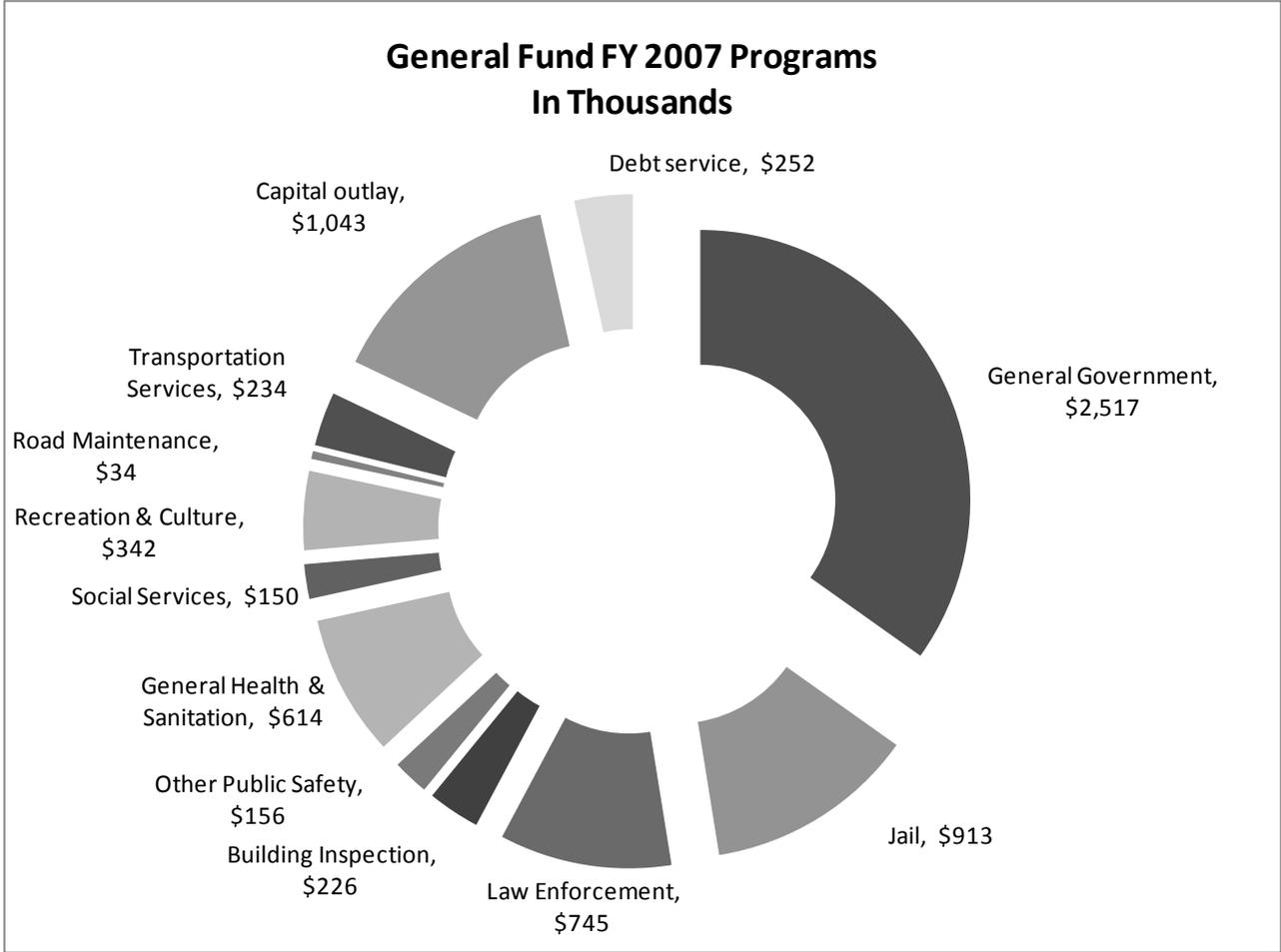
Property rentals include the Justice Centr lease with the Commonwealth of Kentucky that funds the debt service on those bonds. Recreation programs are break-even with pass-through grants for specific programs. Waterline projects at the Industrial Park are funded through state grants; however, at June 30, 2008 grant funds had not yet been received for \$550,000 waterline expenses.

In total the business-type activities decreased net assets by \$263,600, due to increased prices for fuel and repairs, and grant-related expenditures that had not yet been reimbursed.

A FINANCIAL ANALYSIS OF THE COUNTY’S FUNDS

The fund statements on pages 23 through 34 provide a more detailed look at the individual programs for Nelson County.

The General Fund includes a wide variety of programs and services. The chart below outlines the range of activities, from the county’s administration to transportation subsidy for schools. Debt service is still a small component of the total costs in the General Fund, with only 3% expended during FY 2008. The subsidy to the Jail represents 13% of the General Fund outlays, which funds 62% of the Jail’s operations. Administration includes the fringe benefits for all salaries charged to the General Fund, in accordance with the uniform accounting policies prescribed by the Kentucky State Local Finance Officer.



The County Road Aid Fund expended more for road maintenance in FY 2008, due mostly to a 28% increase in fuel costs; therefore, fund balance decreased \$30,457 in FY 2008. This is the second consecutive year that the road fund has decreased in fund balance.

The costs of operating the Jail were 11% lower in FY 2008 and decreased the subsidy from the General Fund from \$1,026,071 in FY 2007 to \$913,324 in FY 2008.

OLF revenues increased 7% or \$67,416 over FY 2007 collections. Growth projections are very conservative given the slowdown in the construction sector and the increase in unemployment rates. In the past four years, this resource has increased an average of 4% annually.

Budgetary Highlights

County budgets in Kentucky are approved and monitored by the State Local Finance Officer. Counties are allowed to make line-item transfers during the year without state approval. You can find budget to actual comparisons on for the governmental funds on pages 31 through 34 and the business-type activities and nonmajor funds on pages 68 through 72.

- Budget amendments during FY 2008 provided additional funding for the following projects:
- 1) Sale of 30 acres at the Nelson County Industrial Park to Flowers Foods Corporation for \$450,000.
 - 2) Increased appropriations for debt service to Salt River Electric Cooperative Corporation.
 - 3) Recognized an increase in property tax revenue of \$75,000.
 - 4) Leasing for a new fire truck to New Hope Fire District for \$131,900.
 - 5) Added funding for a new roof at the Jail.

Nelson County, Kentucky
 Management's Discussion & Analysis
 For The Year Ended June 30, 2008
 (Continued)

Significant budget variances in the General Fund include:

- 1) Intergovernmental revenues exceeded the budget by \$344,053. An end-of-term distribution from both the County Sheriff and County Attorney were not budgeted, but the Sheriff remitted \$113,930 and the Attorney \$85,429 to close their fee accounts. Additionally, the County Clerk paid \$161,121 more than budgeted to close her account at year end. Court Facility Fees and Court Costs were lower than expected by \$18,300.
- 2) The Jail Canteen fund did not remit a reimbursement from surplus funds to cover the costs of the Community Service supervisor to reserve funds for special projects at the Jail.
- 3) Interest income on investments provided an additional \$31,906.
- 4) In expenditures, the primary variance was the Jail Expansion project which has been delayed indefinitely while the fiscal court awaits action from the State of Kentucky and their plans for all county jails. Issuance of bonds to finance this project was also budgeted but not utilized.
- 5) A temporary transfer of funds from the Landfill (\$420,000) was utilized by Nelson County Fiscal Court to purchase the former Nelson County Library building. This building will be occupied by the Nelson County Clerk's office. Total expenditures for this building were \$473,411 for FY 2008. The Landfill will decrease its budgeted transfers to the Landfill Fund for the next 4 years to compensate for the FY 08 transfer.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets—Modified Cash Basis

At June 30, 2008, the County had over \$48 million invested in capital assets, net of depreciation. Almost 75% of the governmental assets and 39% of business-type activities are depreciated. Since the road and bridge infrastructure is the largest component of governmental assets and 45% of those roads were built prior to 1980, accumulated depreciation is much higher for this component of capital assets. This trend also parallels the budget focus (39%) on road maintenance and construction in the governmental funds. Business-type assets are newer, with the construction of the \$11,000,000 Justice Center and improvements to the Nelson County Plaza, purchased in 1998.

MD&A Table 3
Nelson County's Capital Assets
June 30, 2008
(net of depreciation)

	Governmental Activities	Business-Type Activities	Total FY 2008	Total FY 2007
Land	\$ 1,684,346	\$ 1,529,600	\$ 3,213,946	\$ 3,213,846
Land improvements	579,604	4,575,560	5,155,164	5,544,265
Buildings	3,292,227	10,357,322	13,649,549	13,729,038
Vehicles	389,650	1,809,639	2,199,289	1,867,022
Computers	13,025	3,943	16,968	26,691
Equipment	352,188	500,545	852,733	955,287
Infrastructure	22,356,322	837,017	23,193,339	24,126,591
Total	\$ 28,667,362	\$ 19,613,626	\$ 48,280,988	\$ 49,462,740

Nelson County, Kentucky
 Management's Discussion & Analysis
 For The Year Ended June 30, 2008
 (Continued)

Major capital additions during FY 2008 include:

- 1) Purchase of old Nelson County Library building for the Nelson County Clerk (\$420,000);
- 2) New roof on Nelson County Jail (\$54,000) and project design costs for possible future expansion (\$73,000);
- 3) Completion of construction at Animal Shelter (\$157,000);
- 4) Improvements at Dean Watts Park (\$231,500) provided new ball fields, concession stands, pavement and lighting;
- 5) Road and bridge improvements included the Hunters Lane and Harrison Fork Road widening projects (\$45,320), improvements to Dee Head Road (\$36,456), Shady Lane (\$62,550), Timber Creek Road (\$32,600), Walter Hall Road (\$40,734), and Yates Cooney Neck Road (\$45,640), annually paving for other district projects (\$185,396), Keith Knob culvert (\$102,206), rebuild of the Highview Church Road Bridge (\$178,733).
- 6) EMS purchased 3 emergency vehicles (\$93,121)
- 7) Solid Waste purchased a new garbage truck (\$144,678) while the Landfill purchased a new compactor (\$184,669) and bulldozer (\$14,846)
- 8) PIC extended Parkway Drive (\$906,370) into the new Nelson Industrial Park to facilitate development of that property. This road will eventually be transferred to the County Road inventory. Improvements at the Nelson Industrial Park (\$229,124) were necessitated by the purchase of property by the Flowers Foods Corporation.

Additional information on capital assets can be found in Note 6 of this report.

Long-Term Debt—Modified Cash Basis

At June 30, 2008, the County had \$13.5 million in long-term debt arising from modified cash basis transactions compared to \$14.4 million at June 30, 2007. Nelson County retired \$840,156 in debt with annual payments on notes, leases, and bonds.

Two notes (Plaza and Wickland) and one lease (New Haven Water Tank) were paid in full during FY 2008. There are no scheduled retirements for FY 2009. The County entered into one new lease agreement during FY 2008, the New Hope Fire Department truck lease.

MD&A Table 4				
Nelson County's Outstanding Debt				
June 30, 2008				
Category	Governmental Activities	Business-Type Activities	FY 2008 Total	FY 2007 Total
Bonds	\$ 1,040,000	\$ 9,330,000	\$ 10,370,000	\$ 10,900,000
Notes	0	2,857,657	2,857,657	3,331,647
Capital leases		239,261	239,261	145,000
Total	<u>\$ 1,040,000</u>	<u>\$ 12,426,918</u>	<u>\$ 13,466,918</u>	<u>\$ 14,376,647</u>

Nelson County, Kentucky
 Management's Discussion & Analysis
 For The Year Ended June 30, 2008
 (Continued)

Nelson County's outstanding debt is only 28% of net capital assets, illustrating the Court's preference for cash, rather than debt financing. Nelson County's debt is unique in that taxpayers only provide funding for one bond issue—the 2007 General Obligation bonds issued to finance park improvements and the construction of the Animal Shelter. Other debt is paid from leases as follows:

- Capital leases funded fire trucks for Northeast Nelson and New Hope, a water tank in New Haven, and an airport hangar at Samuels Field. The New haven water tank lease was retired in January 2008. Lease revenues provide 100% of the debt service requirements.
- Bonds were issued for the new Justice Center, which is also funded with a lease to the Commonwealth of Kentucky.
- Note payments on the Nelson County Plaza are paid from leases with commercial entities located in the shopping areas. This note was retired in FY 2008.

Additional information on long-term debt can be found in Note 7 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Several trends from FY 2007 to FY 2008 signaled a slowing in the Nelson County economy—building permits continue to decline, and landfill fees were affected by lower construction activity. Economic development team received a boost in November 2007 when Flowers Foods Corporation of Thomasville, Georgia purchased 30 acres at the Nelson Industrial Park. The Company is currently constructing a 200,000 square foot bakery, and plans to initially hire 100 personnel, with operations beginning Spring 2009. The economic development team, Nelson County Economic Development Agency, Kentucky Economic Development Cabinet, and local elected officials are working aggressively to attract new commercial development in Nelson County. Additional infrastructure improvements are planned in FY 2009 to continue development of the Nelson Industrial Park, in hopes of selling more lots to new industries that will expand the employment opportunities in Nelson County and the surrounding counties.

With budget constraints sweeping across the State of Kentucky, the Nelson County Fiscal Court is researching additional resources to finance road maintenance for county roads. As the County's population has increased, new roads were constructed by developers s subdivisions were added. Resources from the OLF and Commonwealth of Kentucky are not keeping pace with the needs for maintaining the expanding infrastructure assets in Nelson County, and the County roads. The Fiscal Court has shifted its policy from maintaining property tax millage rates to adopting the 4% annual revenue increase allowed under KY law in an effort to provide additional resources for the Road Fund.

Budget pressures continue in FY 2009. The School Transportation grant declined \$34,000 (17%), the Road Fund's Truck License Distribution decreased \$64,000 (28%), appropriations to fund the County's E-911 Fund are expected to increase \$218,000, and additional infrastructure costs at the Nelson Industrial park are needed to attract new development. Additionally, the State of Kentucky is looking to make 4% cuts in all departments. Fuel costs remain unpredictable and could easily increase higher than budgeted estimates. The General Fund surplus is likely to decline from \$560,000 to \$50,000, while total reserves will be reduced from \$1.6 million to \$1.1 million. If grant funds are not available, Nelson Industrial Park development projects may require additional borrowing. However, land sales to new industries could provide critical resources to move forward and create jobs that would spur economic growth in Nelson County.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

We hope this report helps our citizens, taxpayers, customers, and creditors understand our finances. We should demonstrate our accountability for the resources we manage and the annual financial report is an important communication tool to accomplish that goal. This report was prepared by County Treasurer Rhonda H. Fenwick, CPA. If you have any questions about this report or need additional financial information, please contact the Treasurer at One Court Square in Bardstown, by phone at 502-348-1804, or visiting our website at www.nelsoncountky.com

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

June 30, 2008

NELSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 778,428	\$ 88,156	\$ 866,584
Investments	35,000	2,402,720	2,437,720
Land held for resale		3,001,477	3,001,477
Capital assets, net of accumulated depreciation	<u>28,667,362</u>	<u>19,613,626</u>	<u>48,280,988</u>
Total assets	<u>29,480,790</u>	<u>25,105,979</u>	<u>54,586,769</u>
LIABILITIES			
Deposits Held For Others	109,000		109,000
Long-Term Liabilities:			
Due Within One Year	100,000	477,975	577,975
Due In More Than One Year	<u>940,000</u>	<u>11,948,943</u>	<u>12,888,943</u>
Total liabilities	<u>1,149,000</u>	<u>12,426,918</u>	<u>13,575,918</u>
NET ASSETS			
Invested in capital assets, net of related debt	27,627,362	10,044,365	37,671,727
Restricted for:			
Infrastructure	88,542	2,402,720	2,491,262
Special projects	660		660
Unrestricted	<u>615,226</u>	<u>231,976</u>	<u>847,202</u>
Total net assets	<u>\$ 28,331,790</u>	<u>\$ 12,679,061</u>	<u>\$ 41,010,851</u>

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

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

For The Year Ended June 30, 2008

NELSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ (2,778,683)	\$ 242,155	\$ 748,486	\$ 130,378
Public Protection				
Jail	(1,551,013)	354,666	80,693	
Law Enforcement	(864,598)		250,096	
Building Inspection	(234,613)			
Fire Protection	(30,000)	166		
Emergency Management	(148,704)			
Public Advocacy	(4,685)			
General Health & Sanitation	(636,098)	12,853	4,497	
Social Services	(150,172)			
Recreation & Culture	(602,350)			
Road Maintenance	(4,786,745)		1,930,761	665,275
Transportation Services	(248,121)			
Total governmental activities	(12,035,782)	609,840	3,014,533	795,653
Business-type activities:				
General Government	(1,393,028)	1,024,950		
Public Protection:				
Jail Canteen	(267,901)	178,265		
Fire	(131,900)			
EMS	(1,958,044)	1,606,023		231,536
Recreation	(465,434)		525,266	
General Health & Sanitation:				
Waterline projects	(505,683)			
Landfill	(2,000,084)	2,157,542		
Solid Waste	(1,688,008)	1,580,448	62,373	
Total business-type activities	(8,410,082)	6,547,228	587,639	231,536
Total primary government	\$ (20,445,864)	\$ 7,157,068	\$ 3,602,172	\$ 1,027,189

General revenues:

Taxes:

Property taxes, levied for general purposes

Transient room tax

License Fees and Permits, levied for general purposes

Interest and investment earnings

Gain (loss) on asset sales

Other income

Cash Transfers

Total general revenues, special items, and transfers

Change in net assets

Net assets--beginning (Restated)

Net assets--ending

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

NELSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008(Continued)

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,657,664)		\$ (1,657,664)
(1,115,654)		(1,115,654)
(614,502)		(614,502)
(234,613)		(234,613)
(29,834)		(29,834)
(148,704)		(148,704)
(4,685)		(4,685)
(618,748)		(618,748)
(150,172)		(150,172)
(602,350)		(602,350)
(2,190,709)		(2,190,709)
(248,121)		(248,121)
<u>(7,615,756)</u>		<u>(7,615,756)</u>
	(368,078)	(368,078)
	(89,636)	(89,636)
	(131,900)	(131,900)
	(120,485)	(120,485)
	59,832	59,832
	(505,683)	(505,683)
	157,458	157,458
	(45,187)	(45,187)
	<u>(1,043,679)</u>	<u>(1,043,679)</u>
<u>\$ (7,615,756)</u>	<u>\$ (1,043,679)</u>	<u>\$ (8,659,435)</u>
4,227,635		4,227,635
141,893		141,893
1,592,618		1,592,618
74,261	88,993	163,254
	(42,534)	(42,534)
188,555	477,955	666,510
(24,983)	24,983	
<u>6,199,979</u>	<u>549,397</u>	<u>6,749,376</u>
(1,415,777)	(494,282)	(1,910,059)
29,747,567	13,173,343	42,920,910
<u>\$ 28,331,790</u>	<u>\$ 12,679,061</u>	<u>\$ 41,010,851</u>

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

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NELSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

NELSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

	<u>General Fund</u>	<u>County Road Aid</u>	<u>OLF</u>
ASSETS			
Cash and cash equivalents	\$ 636,068	\$ 55,721	\$ 55,658
Investments		35,000	
Total assets	<u>636,068</u>	<u>90,721</u>	<u>55,658</u>
LIABILITIES			
Road Bonds		32,500	
Encroachment permits	76,500		
Total liabilities	<u>76,500</u>	<u>32,500</u>	
FUND BALANCES			
Reserved for:			
Infrastructure		58,221	
Special projects			
Unreserved, reported in:			
General fund	559,568		
OLF fund			55,658
Total fund balances	<u>559,568</u>	<u>58,221</u>	<u>55,658</u>
Total liabilities and fund balances	<u>\$ 636,068</u>	<u>\$ 90,721</u>	<u>\$ 55,658</u>

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

NELSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2008
(Continued)

Non Major Funds	Total Governmental Funds
\$ 30,981	\$ 778,428
	35,000
<u>30,981</u>	<u>813,428</u>
	32,500
	76,500
	<u>109,000</u>
30,321	88,542
660	660
	559,568
	55,658
<u>30,981</u>	<u>704,428</u>
<u>\$ 30,981</u>	<u>\$ 813,428</u>

Reconciliation of the Balance Sheet - Governmental Funds To The Statement Of Net Assets

Total Fund Balance	\$ 704,428
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds.	28,667,362
Long-term debt, including bonds and capital leases, are not due and payable in the current period and therefore are not reported in the funds.	(1,040,000)
Net assets of governmental activities	<u>\$ 28,331,790</u>

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

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

For The Year Ended June 30, 2008

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

For The Year Ended June 30, 2008

	General	County Road Aid	Jail	OLF	Non Major Funds	Total Governmental Funds
REVENUES:						
Taxes	\$ 4,369,528	\$	\$	\$	\$	\$ 4,369,528
Licenses and Permits	489,067			1,103,551		1,592,618
Intergovernmental	1,133,457	1,779,582	80,693		151,179	3,144,911
Charges for services	255,174	-	354,666			609,840
Interest	60,437	8,661		3,212	1,951	74,261
Other	35,948	12,595	140,012			188,555
Total revenues	<u>6,343,611</u>	<u>1,800,838</u>	<u>575,371</u>	<u>1,106,763</u>	<u>153,130</u>	<u>9,979,713</u>
EXPENDITURES:						
Current operating:						
General Government	2,517,499			108,084		2,625,583
Public Protection						
Jail			1,429,507			1,429,507
Law Enforcement	744,823					744,823
Building Inspection	226,496					226,496
Fire Protection	30,000					30,000
Emergency Management	121,495					121,495
Public Advocacy	4,685					4,685
General Health & Sanitation	614,051					614,051
Social Services	150,172					150,172
Recreation & Culture	342,024					342,024
Road Maintenance	34,072	1,255,821			221,633	1,511,526
Transportation Services	234,310			13,811		248,121
Capital outlay	1,042,617	840,474	59,188			1,942,279
Debt service:						
Principal	201,473					201,473
Interest	50,307					50,307
Total expenditures	<u>6,314,024</u>	<u>2,096,295</u>	<u>1,488,695</u>	<u>121,895</u>	<u>221,633</u>	<u>10,242,542</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	<u>29,587</u>	<u>(295,457)</u>	<u>(913,324)</u>	<u>984,868</u>	<u>(68,503)</u>	<u>(262,829)</u>

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

NELSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

	General	County Road Aid	Jail	OLF	Non Major Funds	Total Governmental Funds
Other Financing Sources (Uses):						
Transfers in	670,017	515,000	913,324			2,098,341
Transfers out	(913,324)	(250,000)		(960,000)		(2,123,324)
Total transfers and other sources	<u>(243,307)</u>	<u>265,000</u>	<u>913,324</u>	<u>(960,000)</u>		<u>(24,983)</u>
Net Change In Fund Balances	(213,720)	(30,457)		24,868	(68,503)	(287,812)
Fund balances--beginning	773,288	88,678		30,790	99,484	992,240
Fund balances--ending	<u>\$ 559,568</u>	<u>\$ 58,221</u>	<u>\$</u>	<u>\$ 55,658</u>	<u>\$ 30,981</u>	<u>\$ 704,428</u>

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

**NELSON 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, 2008

NELSON 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, 2008

Net change in fund balances--total governmental funds	\$ (287,812)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Depreciation expense reported in statement of activities	(3,936,991)
Capital outlay reported in governmental expenditures and developer contributions - road projects	1,942,278
Developer Contributions-road projects	665,275
Principal payments on long-term debt reported as governmental expenditures	201,473
Change in net assets of governmental activities	<u>\$ (1,415,777)</u>

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

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NELSON COUNTY
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL - MAJOR GOVERNMENTAL FUNDS

For The Year Ended June 30, 2008

NELSON COUNTY
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL - MAJOR GOVERNMENTAL FUNDS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Taxes	\$ 4,272,400	\$ 4,347,400	\$ 4,369,528	\$ 22,128
Licenses & Permits	525,700	525,700	489,067	(36,633)
Intergovernmental	817,669	789,404	1,133,457	344,053
Charges for Services	261,900	261,900	255,174	(6,726)
Other	83,500	83,500	35,948	(47,552)
Interest	28,531	28,531	60,437	31,906
Total Revenues	<u>5,989,700</u>	<u>6,036,435</u>	<u>6,343,611</u>	<u>307,176</u>
Expenditures				
General Government	2,530,945	2,615,445	2,517,500	97,945
Public Protection				
Law Enforcement	804,690	820,785	744,823	75,962
Building Inspection	243,650	223,950	226,496	(2,546)
Fire Protection	30,000	30,000	30,000	
Emergency Management	123,250	123,250	121,495	1,755
Public Advocacy	4,690	4,690	4,685	5
General Health & Sanitation	597,300	617,000	614,051	2,949
Social Services	138,550	153,550	150,172	3,378
Recreation & Culture	376,200	376,200	342,024	34,176
Road Maintenance	30,000	34,000	34,072	(72)
Transportation Services	271,100	238,300	234,310	3,990
Debt Service	467,000	467,000	251,780	215,220
Capital Projects	2,155,005	2,155,005	1,042,616	1,112,389
Contingencies	59,155	37,945		37,945
Total Expenditures	<u>7,831,535</u>	<u>7,897,120</u>	<u>6,314,024</u>	<u>1,583,096</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	(1,841,835)	(1,860,685)	29,587	1,890,272
Other Financing Sources (Uses):				
Transfers Out	(1,090,735)	(1,090,735)	(913,324)	177,411
Transfers In	250,000	250,000	670,017	420,017
Borrowed Money	1,930,150	1,930,150		(1,930,150)
Total Other Financing Sources (Uses)	<u>1,089,415</u>	<u>1,089,415</u>	<u>(243,307)</u>	<u>(1,332,722)</u>
Net Changes In Fund Balance	(752,420)	(771,270)	(213,720)	557,550
Fund Balance, July 1, 2007	<u>752,420</u>	<u>771,270</u>	<u>773,288</u>	<u>2,018</u>
Fund Balance, June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$ 559,568</u>	<u>\$ 559,568</u>

NELSON COUNTY
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL - MAJOR GOVERNMENTAL FUNDS
COUNTY ROAD AID FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Intergovernmental	\$ 2,467,310	\$ 2,467,310	\$ 1,779,582	\$ (687,728)
Other	1,000	1,000	12,595	11,595
Interest	8,100	8,100	8,661	561
Total Revenues	<u>2,476,410</u>	<u>2,476,410</u>	<u>1,800,838</u>	<u>(675,572)</u>
Expenditures				
Road Maintenance	1,278,200	1,278,200	1,255,821	22,379
Capital Projects	1,824,900	1,847,885	840,474	1,007,411
Contingencies	45,310	22,325		22,325
Total Expenditures	<u>3,148,410</u>	<u>3,148,410</u>	<u>2,096,295</u>	<u>1,052,115</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	(672,000)	(672,000)	(295,457)	376,543
Other Financing Sources (Uses):				
Transfers Out			(250,000)	(250,000)
Transfers In	585,000	585,000	515,000	70,000
Total Other Financing Sources (Uses)	<u>585,000</u>	<u>585,000</u>	<u>265,000</u>	<u>(320,000)</u>
Net Changes In Fund Balance	(87,000)	(87,000)	(30,457)	56,543
Fund Balance, July 1, 2007	<u>87,000</u>	<u>87,000</u>	<u>88,678</u>	<u>1,678</u>
Fund Balance, June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$ 58,221</u>	<u>\$ 58,221</u>

NELSON COUNTY
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL - MAJOR GOVERNMENTAL FUNDS
JAIL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Intergovernmental	\$ 87,400	\$ 87,400	\$ 80,693	\$ (6,707)
Charges for Services	252,300	309,300	354,666	45,366
Other	108,400	108,400	140,012	31,612
Total Revenues	<u>448,100</u>	<u>505,100</u>	<u>575,371</u>	<u>70,271</u>
Expenditures				
Public Protection				
Jail	1,515,790	1,515,790	1,429,507	86,283
Capital	8,045	65,045	59,188	5,857
Contingencies	15,000	15,000		15,000
Total Expenditures	<u>1,538,835</u>	<u>1,595,835</u>	<u>1,488,695</u>	<u>107,140</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	(1,090,735)	(1,090,735)	(913,324)	177,411
Other Financing Sources (Uses):				
Transfers In	1,090,735	1,090,735	913,324	(177,411)
Total Other Financing Sources (Uses)	<u>1,090,735</u>	<u>1,090,735</u>	<u>913,324</u>	<u>(177,411)</u>
Net Changes In Fund Balance				
Fund Balance, July 1, 2007	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance, June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

NELSON COUNTY
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL - MAJOR GOVERNMENTAL FUNDS
OLF FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Occupational License Fee	\$ 1,018,500	\$ 1,018,500	\$ 1,103,551	\$ 85,051
Interest	3,000	3,000	3,212	212
Total Revenues	<u>1,021,500</u>	<u>1,021,500</u>	<u>1,106,763</u>	<u>85,263</u>
Expenditures				
General Government	95,985	95,985	108,084	(12,099)
Air Board Contribution	14,665	14,665	13,811	854
Contingencies	23,400	23,400		23,400
Total Expenditures	<u>134,050</u>	<u>134,050</u>	<u>121,895</u>	<u>12,155</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	887,450	887,450	984,868	97,418
Other Financing Sources (Uses):				
Transfers Out	<u>(925,000)</u>	<u>(925,000)</u>	<u>(960,000)</u>	<u>(35,000)</u>
Total Other Financing Sources (Uses)	<u>(925,000)</u>	<u>(925,000)</u>	<u>(960,000)</u>	<u>(35,000)</u>
Net Changes In Fund Balance	(37,550)	(37,550)	24,868	62,418
Fund Balance, July 1, 2007	<u>37,550</u>	<u>37,550</u>	<u>30,790</u>	<u>(6,760)</u>
Fund Balance, June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$ 55,658</u>	<u>\$ 55,658</u>

**NELSON COUNTY
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS**

June 30, 2008

NELSON COUNTY
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
JUNE 30, 2008

	EMS	Solid Waste	Landfill	PIC
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 10,008	\$ 4,592	\$ 20,485	\$ 960
Investments			2,402,720	
Land held for resale				3,001,477
Total current assets	<u>10,008</u>	<u>4,592</u>	<u>2,423,205</u>	<u>3,002,437</u>
Noncurrent assets:				
Capital Assets:				
Land			1,404,946	124,654
Land improvements			9,062,211	422,959
Buildings	252,050		443,689	14,458,821
Vehicles	479,510	1,145,241	921,810	256,900
Computers	55,635		6,575	
Equipment	531,248	221,200	1,061,646	906,370
Infrastructure				139,901
Less accumulated depreciation	(636,506)	(587,202)	(6,346,012)	(4,712,020)
Capital assets - net	<u>681,937</u>	<u>779,239</u>	<u>6,554,865</u>	<u>11,597,585</u>
Total assets	<u>691,945</u>	<u>783,831</u>	<u>8,978,070</u>	<u>14,600,022</u>
LIABILITIES				
Current liabilities:				
Capital leases				27,975
Bonds, notes, and loans payable				450,000
Total current liabilities				<u>477,975</u>
Noncurrent liabilities:				
Capital leases				211,286
Bonds, notes, and loans payable				11,737,657
Total noncurrent liabilities				<u>11,948,943</u>
Total liabilities				<u>12,426,918</u>
NET ASSETS				
Invested in capital assets, net of related debt	681,937	779,239	6,554,865	2,028,324
Restricted				
Infrastructure			2,402,720	
Unrestricted	10,008	4,592	20,485	144,780
Total net assets	<u>691,945</u>	<u>783,831</u>	<u>8,978,070</u>	<u>2,173,104</u>
Total Net Assets & Liabilities	<u>\$ 691,945</u>	<u>\$ 783,831</u>	<u>\$ 8,978,070</u>	<u>\$ 14,600,022</u>

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

NELSON COUNTY
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
June 30, 2008
(Continued)

Non Major Fund - Jail Canteen	Total Proprietary Funds
\$ 52,111	\$ 88,156
	2,402,720
	3,001,477
<u>52,111</u>	<u>5,492,353</u>
	1,529,600
	9,485,170
	15,154,560
	2,803,461
	62,210
	2,720,464
	139,901
	(12,281,740)
	<u>19,613,626</u>
<u>52,111</u>	<u>25,105,979</u>
	27,975
	<u>450,000</u>
	<u>477,975</u>
	211,286
	<u>11,737,657</u>
	<u>11,948,943</u>
	<u>12,426,918</u>
	10,044,365
	2,402,720
<u>52,111</u>	<u>231,976</u>
<u>52,111</u>	<u>12,679,061</u>
<u>\$ 52,111</u>	<u>\$ 25,105,979</u>

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

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**NELSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS**

For The Year Ended June 30, 2008

NELSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
For The Year Ended June 30, 2008

	<u>EMS</u>	<u>Solid Waste</u>	<u>Landfill</u>
Operating revenues:			
Intergovernmental revenues	\$ 231,536	\$ 62,373	\$ -
Charges for services	1,606,023	1,580,448	2,157,542
Other	23,019	19,100	-
Total operating revenues	<u>1,860,578</u>	<u>1,661,921</u>	<u>2,157,542</u>
Operating expenses:			
General Government			
Public Protection	1,823,623		
Recreation			
General Health & Sanitation:			
PIC Waterlines			
Landfill			1,364,895
Solid Waste		1,604,056	
Depreciation	134,421	83,952	635,189
Total operating expenses	<u>1,958,044</u>	<u>1,688,008</u>	<u>2,000,084</u>
Operating income (loss)	(97,466)	(26,087)	157,458
Nonoperating revenues (expenses):			
Gain (loss) on asset disposal	(260,872)	(980)	
Interest and investment revenue	594	3,288	84,618
Interest expense			
Total nonoperating revenue (expenses)	<u>(260,278)</u>	<u>2,308</u>	<u>84,618</u>
Net income (loss) before contributions and transfers	(357,744)	(23,779)	242,076
Transfers in	265,000		120,000
Transfers out		(175,000)	(1,445,017)
Change in net assets	<u>(92,744)</u>	<u>(198,779)</u>	<u>(1,082,941)</u>
Total net assets--beginning	784,689	982,610	10,061,011
Total net assets--ending	<u>\$ 691,945</u>	<u>\$ 783,831</u>	<u>\$ 8,978,070</u>

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

NELSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
For The Year Ended June 30, 2008
(Continued)

PIC	Non Major Fund - Jail Canteen	Total Proprietary Funds
\$ 525,266	\$	\$ 819,175
1,024,950	178,265	6,547,228
353,374	82,462	477,955
<u>1,903,590</u>	<u>260,727</u>	<u>7,844,358</u>
33,641		33,641
131,900	267,901	2,223,424
465,434		465,434
505,683		505,683
		1,364,895
		1,604,056
843,091		1,696,653
<u>1,979,749</u>	<u>267,901</u>	<u>7,893,786</u>
(76,159)	(7,174)	(49,428)
219,318		(42,534)
	493	88,993
(516,296)		(516,296)
<u>(296,978)</u>	<u>493</u>	<u>(469,837)</u>
(373,137)	(6,681)	(519,265)
1,380,000		1,765,000
(120,000)		(1,740,017)
<u>886,863</u>	<u>(6,681)</u>	<u>(494,282)</u>
1,286,241	58,792	13,173,343
<u>\$ 2,173,104</u>	<u>\$ 52,111</u>	<u>\$ 12,679,061</u>

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

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**NELSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

For The Year Ended June 30, 2008

NELSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For The Year Ended June 30, 2008

	EMS	Solid Waste
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,629,042	\$ 1,599,548
Payments to suppliers	(701,029)	(1,205,274)
Payments to employees	(1,122,594)	(398,782)
Other receipts (payments)	231,536	62,373
Net cash provided (used) by operating activities	36,955	57,865
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating subsidies and transfers (to)/from other funds	265,000	(175,000)
Net cash provided by noncapital financing	265,000	(175,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		
Purchases of capital assets	(368,665)	(188,168)
Proceeds from sales of capital assets	5,500	
Principal paid on capital debt	-	
Interest paid on capital debt		
Net cash provided (used) by capital and related financing activities	(363,165)	(188,168)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	594	3,288
Investment purchases		
Net cash provided by investing activities	594	3,288
Net increase (decrease) in cash and cash equivalents	(60,616)	(302,015)
Cash and Cash Equivalents-beginning of the year	70,624	306,607
Cash and Cash Equivalents-end of the year	\$ 10,008	\$ 4,592
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	(97,466)	(26,087)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	134,421	83,952
Net cash provided by operating activities	\$ 36,955	\$ 57,865

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

NELSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For The Year Ended June 30, 2008
(Continued)

Landfill	PIC	Non Major Fund - Jail Canteen	Total Proprietary Funds
\$ 2,157,542	\$ 1,378,324	\$ 260,727	\$ 7,025,183
(838,255)	(1,136,658)	(267,901)	(4,149,117)
(526,640)			(2,048,016)
	525,266		819,175
792,647	766,932	(7,174)	1,647,225
(1,325,017)	1,260,000		24,983
(1,325,017)	1,260,000		24,983
	131,900		131,900
(286,280)	(1,267,604)		(2,110,717)
	450,000		455,500
	(840,156)		(840,156)
	(516,296)		(516,296)
(286,280)	(2,042,156)		(2,879,769)
84,618		493	88,993
(245,252)			(245,252)
(160,634)		493	(156,259)
(979,284)	(15,224)	(6,681)	(1,363,820)
999,769	16,184	58,792	1,451,976
\$ 20,485	\$ 960	\$ 52,111	\$ 88,156
157,458	(76,159)	(7,174)	(49,428)
635,189	843,091		1,696,653
\$ 792,647	\$ 766,932	\$ (7,174)	\$ 1,647,225

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

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**NELSON COUNTY
STATEMENT OF NET ASSETS -
AGENCY FUNDS**

June 30, 2008

NELSON COUNTY
STATEMENT OF NET ASSETS – AGENCY FUNDS
June 30, 2008

	Haz Mat 5 Agency Fund
ASSETS	
Cash and cash equivalents	\$ 7,275
Total assets	<u>\$ 7,275</u>
LIABILITIES	
Accounts payable	\$ 7,275
Total liabilities	<u>\$ 7,275</u>

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

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TO THE FINANCIAL STATEMENTS**

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COUNTY OF NELSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

These financial statements only include those amounts derived from cash transactions and do not include accruals or other noncash transactions. However, the government-wide statements and proprietary fund financial statements reflect depreciation of capital assets while the governmental fund financial statements reflect capital asset purchases. This reporting meets the disclosure requirements outlined in GASB Statement 34 for those assets purchased with cash, notes, or bonds. Long-term debts have been included because those transactions provided cash for capital asset purchases. Accounts payable and other accruals have not been recognized since they did not provide cash.

1.A. FINANCIAL REPORTING ENTITY

The County's financial reporting entity is composed of the following:

Primary Government:	County of Nelson
Blended Component Units:	Nelson County Public Improvements Corporation Nelson County Public Properties Corporation

In determining the financial reporting entity, the County complies with the provisions of GASB Statement No. 14 as amended by GASB Statement No. 39, *The Financial Reporting Entity*.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the County Fiscal Court, or the component unit provides services entirely to the County. The component unit's funds are blended into those of the County by appropriate fund type to constitute the primary government presentation.

The blended component units are presented below:

<u>Component Unit</u>	<u>Description/Inclusion Criteria</u>	<u>Reporting Fund</u>
Nelson County Public Properties Corp	Created to finance construction of the new Justice Center. County Judge Executive and Magistrates serve as entire governing body. Debt issued by NCPPC requires approval by Fiscal Court.	Public Improvements Fund
Nelson County Public Improvement Corp	Created to finance long-term capital projects. County Judge Executive and Magistrates serve as entire governing body. Debt issued by NCPIIC requires approval by Fiscal Court.	Public Improvements Fund

1.A. FINANCIAL REPORTING ENTITY (Continued)

The component units do not issue separately audited component unit financial statements.

NELSON COUNTY ELECTED OFFICIALS

Kentucky law provides for election of the following officials from the geographic area constituting Nelson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the Board of Education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and can be obtained from their respective administrative offices.

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

1.B. BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The County presently has one fiduciary fund—the checking account for the Region 5 Hazardous Response Board. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

- a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

For the year ended June 30, 2008, the County had eleven funds and has elected to classify eight of those funds as major. Major funds include General, County Road Aid, Jail, Occupational License Fee, Emergency Medical Service, Solid Waste, Landfill, and Public Improvement Corporation. Nonmajor funds include LGEA, Federal and State Grant Funds, and Jail Canteen.

1.B. BASIS OF PRESENTATION (Continued)

Governmental Funds

General Fund

The General Fund is the primary operating fund of the County and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the County. The reporting entity includes the following special revenue funds:

<u>Fund</u>	<u>Description</u>
County Road Aid	Accounts for revenues received and expenditures paid for county road construction and maintenance. Revenues are remitted by the Commonwealth of Kentucky in accordance with KRS 177.320.
Jail	Accounts for operation of the county jail. Revenues are derived from various state funding sources and transfers from the General Fund.
Local Government Economic Assistance	Accounts for the revenues distributed to Kentucky counties under KRS 42.455 and expenditures for certain county road maintenance projects.
Occupational License Fee	Accounts for the collection of occupational tax imposed under the provisions of KRS 68.197. Expenditures include administrative costs, support for certain related entities and transfers to the incorporated cities, County Road Aid, and EMS funds.
Federal and State Grant Funds	Accounts for the revenues and expenditures of various grants awarded by the US Department of Homeland Security and passed through from the Commonwealth of Kentucky.

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise funds:

1.B. BASIS OF PRESENTATION (Continued)

<u>Fund</u>	<u>Description</u>
Emergency Medical Services	Accounts for the cash receipts and disbursements in providing ambulance service to the public.
Solid Waste	Accounts for the activities of solid waste collection services outside the incorporated city boundaries for county residents.
Landfill	Accounts for the operation of the landfill, roll-off container collection services, and dead animal removal for various commercial entities and the public.
Public Improvement Corporation	Accounts for the leasing, maintenance, and debt service on various county properties leased to commercial entities, other governmental agencies, and the public.
Jail Canteen	Accounts for sales of snacks and sundries to Jail inmates.

Agency Fund

Nelson County provided bookkeeping and administrative services for the Region 5 Hazardous Response Board for the federal grant funds awarded to the Board as well as local contributions that fund ongoing operations. The County Treasurer deposited grant funds into a separate checking account and remitted funds to vendors for purchase of equipment approved by the state agency and the regional board. These funds were awarded to the regional Board and the purchased equipment is titled in the Board's name.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

MEASUREMENT FOCUS

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a) All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance (ending checking account balances) as their measure of available spendable financial resources at the end of the period.
- b) The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

BASIS OF ACCOUNTING

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, business-type, and component unit activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements, and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Since we use the modified cash basis of accounting, certain assets, their related revenues, certain liabilities, their related expenses, and accrued expenses and liabilities *are not recorded* in these financial statements. Assets that are not recorded would include accounts receivable and revenue for billed or provided services not yet collected. Liabilities that are not included in these financial statements include accounts payable and expenses for goods or services received but not yet paid. If we receive or pay cash, we record the related account in these financial statements.

1.D. ASSETS, LIABILITIES, AND EQUITY

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

INVESTMENTS

Investments classified in the financial statements consist entirely certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

CAPITAL ASSETS

The County’s modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. All assets acquired after June 30, 2003 are valued at cost.

- Estimated historical costs were used to value the roads and bridges acquired prior to July 1, 2003.
- PVA assessment records were used to value real property acquired prior to July 1, 2003.
- Historical appropriation ledgers were reviewed for ten years prior to July 1, 2003, to identify acquisitions of vehicles and equipment in excess of \$5,000.

Accumulated depreciation as of July 1, 2003, was based on the estimated historical costs as if the assets had been depreciated from the original purchase date. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$1,000 is used to report equipment and \$10,000 to report real property and infrastructure.

1.D. ASSETS, LIABILITIES, AND EQUITY (Continued)

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an expense in the Statement of Activities and attributed to the fund which purchased the asset, with accumulated depreciation reflected in the Statement of Net Assets. The range of estimated useful lives (by type of asset) is as follows:

Buildings	15 – 25 years
Land improvements	15 – 20 years
Equipment	5 – 10 years
Vehicles	7 - 15 years
Infrastructure	5 – 45 years

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. The reconciliation on the governmental operating statement explains the changes from the fund statements to the government-wide statements and capital asset purchases is one of those adjustments.

Capital assets acquired for use in proprietary fund operations are recorded in the fixed assets on the statement of net assets, the same as in the government-wide statements.

LONG-TERM DEBT

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The reconciliation on the governmental operating statement explains the changes from the fund statements to the government-wide statements and long-term debt is one of those adjustments.

Principal payments in the proprietary funds are recorded as decreases in long-term debt on the statement of net assets, the same as the government-wide statements.

EQUITY CLASSIFICATION

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- a) Invested in capital assets, net of related debt—consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b) Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is the County’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

1.D. ASSETS, LIABILITIES, AND EQUITY (Continued)

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

PROGRAM REVENUES

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The County has the following program revenues in each activity:

General Government	Property rental, state, and federal grants
Jail	Court fees, inmate housing, state grants
Law Enforcement	State and federal grants
Emergency Management	Federal grants
Public Protection	Ambulance service fees, state grants
Road Maintenance	State grants and developer contributions
Transportation Services	State grants
Landfill	Tipping fees, state grants
Solid Waste	Collection fees, state grants

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

OPERATING REVENUE AND EXPENSES

Operating revenues and expense for proprietary funds from providing services and producing and delivering goods and/or services. They also include all revenue and expense not related to capital and related financing, noncapital financing, or investing activities.

1.F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in fund financial statements have been eliminated.

FUND FINANCIAL STATEMENTS

Interfund activity within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

- 1) Interfund services—Landfill charges for tipping fees to the Solid Waste were recorded as expenses in the Solid Waste fund.
- 2) Interfund reimbursements—Repayments from funds responsible for certain expenditures to the fund that initially paid the costs are not reported as reimbursements but as adjustments to expenditures in the respective funds.
- 3) Interfund transfers—Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

1.G. USE OF ESTIMATES

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as transfers. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

The preparation of financial statement in conformity with the other comprehensive basis of accounting (OCBOA) used the County requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Therefore, actual results could differ from those estimates. The most significant estimate we use is the estimated useful lives in determining depreciation expense. We choose an estimated life based on a reasonable time that the asset might last. However, many of our assets are used for much longer periods.

1.H. BUDGETARY BASIS OF ACCOUNTING

Annual budgets are adopted on a cash basis of accounting in accordance with KRS 68.240 and the Uniform System of Accounts prescribed 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.

NOTE 2—STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the County and its component units are subject to various federal, state, and local laws and contractual regulations. Management is not aware of any noncompliance as of June 30, 2008, that is considered to be material to the financial statements.

NOTE 3—CASH AND INVESTMENTS

CUSTODIAL CREDIT RISK—DEPOSITS

KRS 66.480 requires all deposits of the county to be either insured or fully collateralized by securities outlined in KRS 41.240(4). The County's deposits and investments are summarized below.

Type	Total Bank Balance
Insured Deposits	\$ 400,000
Uninsured, collateralized	2,904,304
Total Deposits	<u>\$3,304,304</u>

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. As of August 31, 2007, the collateral and FDIC insurance of the County together did not equal or exceed the amount on deposit, leaving \$841,972 exposed to custodial credit risk as follows:

- Primary Government-uninsured and unsecured-\$841,972

CUSTODIAL CREDIT RISK - INVESTMENTS

During the year ended June 30, 2008, the County's investments consisted solely of certificates of deposit whose original maturity term exceeds three months. The carrying value and the fair value of the certificates of deposit totaled \$2,437,720. For purposes of the custodial credit risk, the certificates of deposit are included in the preceding table of deposits risk analysis.

NOTE 4—RECEIVABLES

Under the modified cash basis of accounting, accounts receivable are not reported on the Statement of Net Assets. The following notes were issued to property owners who wanted to participate in waterline improvements for their neighborhoods and agreed to repay Nelson County for advances to install the waterlines. Nelson County, in turn, used bank financing and grants to fund these projects. The bank note for the Melody Lake waterlines was paid in full in April 2007. Several outstanding loans from property owners have been written off as uncollectible. The following notes with property owners remain as of June 30, 2008.

- A. The county loaned \$2,500 each to five residents and \$1,800 to one resident of the Roberts Road Area on May 1, 1997, for the purpose of providing waterlines to their homes. These notes bear interest at 7% per year. Terms of the agreements stipulate monthly payments of \$29 until April 30, 2007. Records indicate that the residents are in substantial compliance with the terms of the agreements. As of June 30, 2008, the principal balance due was \$1,805.
- B. The county loaned \$3,446 each to seventeen residents of the Bellwood Road Area #1 on March 1, 1998, for the purpose of providing waterlines to their homes. These notes bear interest at 6% per year. Terms of the agreements stipulate monthly payments of \$29 until February 28, 2013. Records indicate that the residents are in substantial compliance with the terms of the agreements. As of June 30, 2008, the principal balance due was \$14,918.
- C. The county loaned \$2,167 each to twelve residents of the Bellwood Road Area #2 on December 1, 1997, for the purpose of providing waterlines to their homes. These notes bear interest at 6.24% per year. Terms of the agreements stipulate monthly payments of \$24 until November 30, 2007. Records indicate that the residents are in substantial compliance with the terms of the agreements. As of June 30, 2008, the principal balance due was \$797.

NOTE 5—LAND HELD FOR RESALE

In July 2004, Nelson County Fiscal Court purchased 424 acres to develop for the Nelson County Industrial Park, located near the intersection of the Martha Layne Collins Parkway and US Highway 150. The property was purchased for \$3,197,674. During the last two fiscal years, infrastructure additions have been made to develop the property. The county is currently researching state funding to assist with infrastructure for the Park. Water tank construction and initial sewer line installation was completed during FY 2008. In addition, Parkway Drive has been extended into the Park. As of June 30, 2008, the County has spent a total of \$3,001,477 on this development.

In December 2007, Nelson County Fiscal Court sold 30 acres to Flowers Foods Corporation for \$450,000. Flowers Foods is building a 200,000 square foot bakery on the property and will initially provide employment opportunities for 100 people. The company expects to invest \$52,000,000 in the bakery over the next two years.

County Of Nelson
Notes To Basic Financial Statements
June 30, 2008
(Continued)

NOTE 6—CAPITAL ASSETS

Capital asset activity resulting from modified cash basis transactions, for the fiscal year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Transfers & Retirements	Ending Balance
Governmental activities:				
Land	\$ 1,684,346	\$	\$	\$ 1,684,346
Land improvements	1,054,977	114,180		1,169,157
Buildings	11,408,055	813,902		12,221,957
Vehicles	1,738,712	78,031	-	1,816,743
Computers	55,091	-	-	55,091
Equipment	682,071	150,487	-	832,558
Infrastructure	89,830,919	1,450,953	-	91,281,872
Totals at historical cost	<u>106,454,171</u>	<u>2,607,553</u>		<u>109,061,724</u>
Land improvements	(395,496)	(194,057)		(589,553)
Buildings	(8,655,116)	(274,614)		(8,929,730)
Vehicles	(1,307,912)	(119,181)		(1,427,093)
Computers	(65,708)	(9,065)		(74,773)
Equipment	(328,811)	(118,852)		(447,663)
Infrastructure	(65,704,328)	(3,221,222)		(68,925,550)
Total accumulated depreciation	<u>(76,457,371)</u>	<u>(3,936,991)</u>		<u>(80,394,362)</u>
Governmental activities capital assets, net	<u><u>\$ 29,996,800</u></u>	<u><u>\$ (1,329,438)</u></u>		<u><u>\$ 28,667,362</u></u>
Business-type activities:				
Land	\$ 1,529,500	\$ 100	\$	\$ 1,529,600
Land improvements	9,249,744	235,426		9,485,170
Buildings	15,154,350	210		15,154,560
Vehicles	2,305,003	622,993	(124,535)	2,803,461
Computers	62,210			62,210
Equipment	1,688,802	346,592	(221,300)	1,814,094
Infrastructure	139,901	906,370		1,046,271
Totals at historical cost	<u>30,129,510</u>	<u>2,111,691</u>	<u>(345,835)</u>	<u>31,895,366</u>
Land improvements	(4,364,960)	(544,650)		(4,909,610)
Buildings	(4,178,251)	(618,987)		(4,797,238)
Vehicles	(868,781)	(203,524)	78,483	(993,822)
Computers	(57,609)	(658)		(58,267)
Equipment	(1,193,969)	(119,580)		(1,313,549)
Infrastructure		(209,254)		(209,254)
Less accumulated depreciation:	<u>(10,663,570)</u>	<u>(1,696,653)</u>	<u>78,483</u>	<u>(12,281,740)</u>
Business-type activities capital assets, net	<u><u>\$ 19,465,940</u></u>	<u><u>\$ 415,038</u></u>	<u><u>\$ (267,352)</u></u>	<u><u>\$ 19,613,626</u></u>

NOTE 6—CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 102,792
Public Protection	
Jail	121,506
Law Enforcement	119,775
Building Inspection	8,117
Emergency Management	27,209
General Health & Sanitation	22,047
Recreation & Culture	260,326
Road Maintenance	3,275,219
	\$ 3,936,991

NOTE 7—LONG-TERM DEBT

The County’s long-term debt arising from cash transactions is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Long-term liability activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
GOVERNMENTAL ACTIVITIES:					
Bond & notes payable:					
2007 GO Bonds	\$ 1,135,000		\$ (95,000)	\$ 1,040,000	\$ 100,000
Wickland purchase	106,473		(106,473)	0	0
Total other liabilities	\$ 1,241,473	\$	\$ (201,473)	\$ 1,040,000	\$ 100,000

County Of Nelson
Notes To Basic Financial Statements
June 30, 2008
(Continued)

NOTE 7—LONG-TERM DEBT (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
BUSINESS-TYPE ACTIVITIES:					
Bonds and notes payable:					
Plaza note	\$ 50,000	\$	\$ (50,000)	\$	\$
Industrial Park	3,175,174		(317,517)	2,857,657	
Justice Center-2002	9,455,000		(420,000)	9,035,000	435,000
Justice Center-2003	310,000		(15,000)	295,000	15,000
Total bonds & notes	12,990,174		(802,517)	12,187,657	450,000
Capital leases					
New Haven Water tank	14,000		(14,000)		
NE Nelson fire truck	56,000		(13,000)	43,000	14,000
Main hangar	75,000		(5,000)	70,000	5,000
New Hope fire truck		131,900	(5,639)	126,261	8,975
Total Capital Leases	145,000	131,900	(37,639)	239,261	27,975
Business-type activities long-term liabilities	\$ 13,135,174	\$ 131,900	\$ (840,156)	\$ 12,426,918	\$ 477,975

GOVERNMENTAL ACTIVITIES

The notes listed above were incurred as follows:

- In June 2007, the County issued General Obligation bonds, in the amount of \$1,135,000 to finance park improvements and construction of a new Animal Shelter. Interest rates on the individual term bonds range from 3.6% to 3.9% with the principal and interest payments (approximately \$69,250) due semiannually in November and May until May 15, 2017.
- The balance of the Wickland purchase, \$400,000, is payable to Mrs. Sara E. Trigg, in annual installments of \$113,109, due in November each year. The promissory note bears interest at a rate of 5% per annum. The principal paid in November 2006 was \$102,653. This note was paid in full in November 2007.

NOTE 7—LONG-TERM DEBT (Continued)**BUSINESS-TYPE ACTIVITIES**

- 1) Nelson County Public Improvements Corporation
 - a) On July 26, 2004, the Nelson County Fiscal Court entered into an agreement to borrow \$3,175,174 from Salt River Electric Cooperative Corporation to purchase 424 acres of land for development as the Nelson County Industrial Park. The principal is due and payable on or before July 26, 2009, with the option to extend the due date for two additional five-year periods. The note bears interest at 3.07%, to be adjusted on July 26, 2006, and every year thereafter, based on the 1 year Treasury index. Principal and interest payments are only required when lots are sold in the Industrial Park. The interest rate as of June 30, 2008 is 5.99%.
 - b) On May 22, 1998, the Nelson County Public Improvement Corporation entered into an agreement to borrow \$1,600,000 from Farmers Bank & Trust Company (now Town & Country Bank & Trust Company) to assist in the development of a shopping center. The original note was payable over ten (10) years in equal semi-annual installments, with a 5.3% interest rate. The original note matured May 22, 2006. In May 2004, terms of the repayment on this note were renegotiated with a revised interest rate of 5.24%, semiannual principal payments of \$52,500. This note was paid in full November 2007.
 - c) The Nelson County Public Improvements Corporation has entered into the following lease agreements:
 - i) On January 5, 1993, the Nelson County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT). The lease provided \$150,000 to construct a water tank for the City of New Haven. This lease has a variable interest rate that is adjusted annually. As of June 30, 2008, the interest rate was 5.15%. Interest is paid monthly and principal is paid annually. This lease was paid in full in January 2008.
 - ii) On April 4, 2001, the Nelson County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT). The lease provided \$125,000 to purchase a fire truck for the Northeast Nelson Fire Department. This lease bears interest at a rate of 3.99% annually for a period of 10 years. Interest is payable monthly and principal is payable annually.
 - iii) On April 30, 2002, the Nelson County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT). The lease provided \$100,000 for construction of an airport hangar. This lease has a variable interest rate that is adjusted annually. As of June 30, 2008, the interest rate was 5.63%. Interest is payable monthly and principal is paid annually.
 - iv) On October 22, 2007, the Nelson County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease provided \$131,900 to purchase a fire truck for the New Hope Fire Department. This lease bears interest at a rate of 4.63% annually for a period of 12 years. Interest and principal are payable monthly.

NOTE 7—LONG-TERM DEBT (Continued)

- 2) Nelson County Public Properties Corporation
- a) On February 15, 2002, Nelson County Public Properties Corporation issued First Mortgage Revenue Bonds Series 2002 dated March 1, 2002, in the amount of \$11,005,000. Proceeds from this bond issue provided funds for the construction of the Nelson County Justice Center. The Corporation has entered into a lease with the Administrative Office of the Courts (AOC), whereby AOC will lease from the Corporation the courthouse complex at a rental amount equal to the sum of the Use Allowance and the Operating Cost Allowance with an exclusive option to renew the lease on July 1 of each even numbered year for a period of two (2) years. AOC is not required to lease for more than two years or to obligate itself for the rental for more than a two-year period. Interest rates on these bonds range from 3.0% to 5%. Interest is paid semi-annually and principal is due in annual installments.
- b) On October 16, 2003, Nelson County Public Properties Corporation issued additional First Mortgage Revenue Bonds Series 2002 B dated October 1, 2003, in the amount of \$375,000. Proceeds from this bond issue provided funds for the completion of the Nelson County Justice Center. The Corporation has entered into a lease with the Administrative Office of the Courts (AOC), whereby AOC will lease from the Corporation the courthouse complex at a rental amount equal to the sum of the Use Allowance and the Operating Cost Allowance with an exclusive option to renew the lease on July 1 of each even numbered year for a period of two (2) years. AOC is not required to lease for more than two years or to obligate itself for the rental for more than a two-year period. Interest rates on these bonds range from 1.05% to 4.5%. Interest is paid semi-annually and principal is due in annual installments on the same maturity schedule as the original bonds in 2002.

DEBT SERVICE REQUIREMENTS TO MATURITY

The annual debt service requirements to maturity, including principal and interest, for long-term bonds, notes, and leases as of June 30, 2008, are as follows:

<u>YEAR ENDED</u> <u>JUNE 30</u>	<u>BONDS & NOTES</u>		<u>LEASES</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
6/30/2009	\$ 3,407,657	\$ 1,032,961	\$ 27,975	\$ 11,069
6/30/2010	570,000	453,343	28,431	10,064
6/30/2011	595,000	429,888	29,794	8,705
6/30/2012	620,000	405,194	15,170	7,258
6/30/2013	645,000	379,465	15,561	6,535
2014 - 2018	3,540,000	1,454,160	84,222	21,221
2019 - 2023	3,850,000	594,150	38,107	3,522
Totals	\$ 13,227,657	\$ 4,749,160	\$ 239,261	\$ 68,375

County Of Nelson
Notes To Basic Financial Statements
June 30, 2008
(Continued)

NOTE 8—INTERFUND TRANSFERS AND BALANCES

Transfers between funds of the primary government are listed below. There were no outstanding balances between funds of the primary government as of June 30, 2008.

FUND	Transfers In	Transfers Out
General	\$ 670,017	\$ (913,324)
Road	515,000	(250,000)
Jail	913,324	
OLF		(960,000)
EMS	265,000	
Solid Waste		(175,000)
Landfill	120,000	(1,445,017)
PIC	1,380,000	(120,000)
Totals	<u>\$ 3,863,341</u>	<u>\$ (3,863,341)</u>

The County transfers General property tax revenues to support Jail operations as necessary. Occupational license tax revenues are transferred as needed to support operation of the General Fund, County Road Department, and the Emergency Medical Service. Transfers from the Solid Waste and Landfill to the General Fund represent administrative cost reimbursements and reimbursement for road maintenance.

NOTE 9—PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The County of Nelson participates in the statewide cost-sharing multi-employer (County Employees Retirement System-CERS) defined benefit plan on behalf of all full-time county employees. Sheriff's deputies participate in the hazardous duty plan and all other full-time employees are enrolled in the non-hazardous duty plan. CERS is a defined benefit plan created by the Kentucky General Assembly. CERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits fully vest upon reaching 5 years of service and are established by state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit. CERS also provides survivor, disability and health care coverage. Authority to establish and amend benefits is provided by Kentucky Revised Statutes Section 61.645.

CERS issues a stand-alone financial report, which may be obtained from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by telephone at 502-564-4646. Additional disclosures required by the Governmental Accounting Standards Board with respect to the cost-sharing plan are provided in those financial statements.

Kentucky Revised Statutes provide statutory authority for employee and employer contributions. Employees and the County have contributed 100% of the required contributions as required by state statute. Contribution rates for the fiscal year ended June 30, 2008, were as follows:

	<u>Employee</u>	<u>Employer</u>
Nonhazardous	5.0%	16.17%
Hazardous-duty	8.0%	33.87%

The County contributed \$722,539 for nonhazardous employees and \$318,215 for hazardous-duty employees for the fiscal year ended June 30, 2008.

NOTE 9—PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

CERS also provides post retirement health care coverage to age and service retirees with 20 or more years of qualifying CERS service credit. A portion of each employer's and employee's contribution to CERS is set aside for the funding of post retirement health care. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in Governmental Accounting Standards Board Statement Number 12. KRS provides statutory authority requiring public employers to fund post retirement health care through their contributions to CERS.

NOTE 10—COMMITMENTS AND CONTINGENCIES**CLOSURE AND POSTCLOSURE CARE COST OF MUNICIPAL SOLID WASTE LANDFILL**

State and federal laws and regulations require the Nelson County Fiscal Court to place a final cover on its Municipal Solid Waste Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste.

As of June 30, 2008, County engineers estimate that \$5,449,802 will be required for landfill closure cost and for postclosure care liability. Approximately 40% of the landfill airspace capacity had been used as of June 30, 2008. \$2,402,720 has been set-aside in a restricted reserve to accumulate funds required to finance closure and post-closure monitoring. The projected date of closure is in the year 2017. No cost related to closure or postclosure care has been incurred to date. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Estimates are adjusted for inflation.

LITIGATION

The County is a party to various legal proceedings that normally occur in the course of governmental operations. As a result of the modified cash basis of accounting, the financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the County, the County believes that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the County.

NOTE 11—RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The County purchases commercial insurance to cover all types of losses. Management believes such coverage is sufficient to preclude any significant uninsured losses to the County. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 12— PRIOR PERIOD ADJUSTMENT

During FY 2008, we discovered errors in the calculation of land improvements for governmental activities, shown on the financial statements versus detailed ledgers. No depreciation expense was recorded against this asset. The effect of this correction is a decrease in beginning net assets of governmental activities of \$50,000.

**NELSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2008

**NELSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2008

	<u>LGEA</u>	<u>Federal & State Grants</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 30,321	\$ 660	\$ 30,981
Total assets	<u>30,321</u>	<u>660</u>	<u>30,981</u>
FUND BALANCES			
Reserved for:			
Infrastructure	30,321		30,321
Special projects		660	660
Total fund balances	<u>\$ 30,321</u>	<u>\$ 660</u>	<u>\$ 30,981</u>

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

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NELSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2008

NELSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2008

	LGEA	Federal & State Grants	Total Governmental Funds
REVENUES:			
Intergovernmental	\$ 151,179	\$	\$ 151,179
Interest	1,951		1,951
Total revenues	153,130		153,130
EXPENDITURES:			
Road Maintenance	221,633		221,633
Total expenditures	221,633		221,633
Excess (deficiency) of revenues over expenditures before other financing sources and uses	(68,503)		(68,503)
Fund balances--beginning	98,824	660	99,484
Fund balances--ending	\$ 30,321	\$ 660	\$ 30,981

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

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NELSON COUNTY
BUDGETARY COMPARISON STATEMENTS – OTHER FUNDS
Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2008

NELSON COUNTY
BUDGETARY COMPARISON STATEMENTS – OTHER FUNDS
LGEA FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Intergovernmental	\$ 193,280	\$ 193,280	\$ 151,179	\$ (42,101)
Interest	5,760	5,760	1,951	(3,809)
Total Revenues	<u>199,040</u>	<u>199,040</u>	<u>153,130</u>	<u>(45,910)</u>
Expenditures				
Road Maintenance	151,300	151,300	221,633	(70,333)
Contingencies	187,560	187,560		187,560
Total Expenditures	<u>338,860</u>	<u>338,860</u>	<u>221,633</u>	<u>117,227</u>
Net Changes In Fund Balance	(139,820)	(139,820)	(68,503)	71,317
Fund Balance, July 1, 2007	<u>139,820</u>	<u>139,820</u>	<u>98,824</u>	<u>(40,996)</u>
Fund Balance, June 30, 2008	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$ 30,321</u></u>	<u><u>\$ 30,321</u></u>

NELSON COUNTY
BUDGETARY COMPARISON SCHEDULE – OTHER FUNDS
EMS FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Intergovernmental	\$ 231,800	\$ 320,955	\$ 231,536	\$ (89,419)
Charges for Services	1,652,500	1,652,500	1,606,023	(46,477)
Other		28,494	28,519	25
Interest	1,200	1,200	594	(606)
Total Revenues	<u>1,885,500</u>	<u>2,003,149</u>	<u>1,866,672</u>	<u>(136,477)</u>
Expenditures				
Public Protection	1,844,400	1,848,200	1,823,623	24,577
Capital Projects	321,300	431,455	368,665	62,790
Contingencies	300	3,994		3,994
Total Expenditures	<u>2,166,000</u>	<u>2,283,649</u>	<u>2,192,288</u>	<u>91,361</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	(280,500)	(280,500)	(325,616)	(45,116)
Other Financing Sources (Uses):				
Transfers In	<u>275,000</u>	<u>275,000</u>	<u>265,000</u>	<u>(10,000)</u>
Total Other Financing Sources (Uses)	<u>275,000</u>	<u>275,000</u>	<u>265,000</u>	<u>(10,000)</u>
Net Changes In Fund Balance	(5,500)	(5,500)	(60,616)	(55,116)
Fund Balance, July 1, 2007	<u>5,500</u>	<u>5,500</u>	<u>70,624</u>	<u>65,124</u>
Fund Balance, June 30, 2008	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$ 10,008</u></u>	<u><u>\$ 10,008</u></u>

NELSON COUNTY
BUDGETARY COMPARISON SCHEDULE – OTHER FUNDS
SOLID WASTE FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Intergovernmental	\$ 60,000	\$ 60,000	\$ 62,373	\$ 2,373
Charges for Services	1,527,600	1,527,600	1,580,448	52,848
Other	12,000	12,000	19,100	7,100
Interest	12,800	12,800	3,288	(9,512)
Total Revenues	<u>1,612,400</u>	<u>1,612,400</u>	<u>1,665,209</u>	<u>52,809</u>
Expenditures				
General Health & Sanitation	1,546,200	1,546,200	1,604,056	(57,856)
Capital Projects	190,000	190,000	188,168	1,832
Contingencies	84,200	84,200		84,200
Total Expenditures	<u>1,820,400</u>	<u>1,820,400</u>	<u>1,792,224</u>	<u>28,176</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	(208,000)	(208,000)	(127,015)	80,985
Other Financing Sources (Uses):				
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(175,000)</u>	<u>(75,000)</u>
Total Other Financing Sources (Uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>(175,000)</u>	<u>(75,000)</u>
Net Changes In Fund Balances	(308,000)	(308,000)	(302,015)	5,985
Fund Balance, July 1, 2007	<u>308,000</u>	<u>308,000</u>	<u>306,607</u>	<u>(1,393)</u>
Fund Balance, June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$ 4,592</u>	<u>\$ 4,592</u>

NELSON COUNTY
BUDGETARY COMPARISON SCHEDULE – OTHER FUNDS
LANDFILL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Intergovernmental				
Charges for Services	\$ 2,136,440	\$ 2,136,440	\$ 2,157,542	\$ 21,102
Other	1,000	1,000		(1,000)
Interest	94,100	94,100	84,618	(9,482)
Total Revenues	<u>2,231,540</u>	<u>2,231,540</u>	<u>2,242,160</u>	<u>10,620</u>
Expenditures				
General Health & Sanitation	1,407,200	1,430,280	1,363,921	66,359
Capital Projects	300,000	303,190	287,254	15,936
Closure reserves	1,462,415	1,436,145	245,252	1,190,893
Total Expenditures	<u>3,169,615</u>	<u>3,169,615</u>	<u>1,896,427</u>	<u>1,273,188</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	(938,075)	(938,075)	345,733	1,283,808
Other Financing Sources (Uses):				
Transfers In	125,000	125,000	120,000	(5,000)
Transfers Out	(200,000)	(200,000)	(1,445,017)	(1,245,017)
Total Other Financing Sources (Uses)	<u>(75,000)</u>	<u>(75,000)</u>	<u>(1,325,017)</u>	<u>(1,250,017)</u>
Net Changes In Fund Balance	(1,013,075)	(1,013,075)	(979,284)	33,791
Fund Balance, July 1, 2007	<u>1,013,075</u>	<u>1,013,075</u>	<u>999,769</u>	<u>(13,306)</u>
Fund Balance, June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$ 20,485</u>	<u>\$ 20,485</u>

NELSON COUNTY
BUDGETARY COMPARISON SCHEDULE – OTHER FUNDS
PIC FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Intergovernmental Revenues	\$ 1,106,850	\$ 1,106,850	\$ 525,266	\$ (581,584)
Charges for Services	1,021,500	1,031,430	1,024,950	(6,480)
Other	208,120	790,020	803,374	13,354
Total Revenues	2,336,470	2,928,300	2,353,590	(574,710)
Expenditures				
General Government	35,680	42,180	33,641	8,539
General Health	550,000	550,000	505,683	44,317
Recreation & culture	500,000	500,000	465,434	34,566
Debt Service:				
Principal	517,000	522,870	840,156	(317,286)
Interest	462,110	834,715	516,296	318,419
Capital Projects	256,850	2,263,705	1,267,604	996,101
Contingencies	4,830	4,830		4,830
Total Expenditures	2,326,470	4,718,300	3,628,814	1,089,486
Excess (deficiency) of revenues over expenditures before other financing sources and uses	10,000	(1,790,000)	(1,275,224)	514,776
Other Financing Sources (Uses):				
Transfers out	(125,000)	(125,000)	(120,000)	5,000
Transfers in	115,000	115,000	1,380,000	1,265,000
Debt proceeds		1,800,000		(1,800,000)
Total Other Financing Sources (Uses)	(10,000)	1,790,000	1,260,000	(530,000)
Net Changes In Fund Balance			(15,224)	(15,224)
Fund Balance, July 1, 2007			16,184	16,184
Fund Balance, June 30, 2008	\$	\$	\$ 960	\$ 960

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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**



PEERCY AND GRAY, PSC

Certified Public Accountants

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Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Dean Watts, Nelson County Judge/Executive
Members of the Nelson County Fiscal Court

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Nelson County, Kentucky, as of and for the year ended June 30, 2008, 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, 2008. Nelson 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. 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financing reporting.

- The County Lacks Adequate Segregation Of Duties Over Occupational License Fee Receipts

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)

Internal Control Over Financial Reporting

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, we do not consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Nelson County's financial statements 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 one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Should Enter Into Written Agreements With Depository Institutions Stating Collateral Will Be Pledged To Protect Deposits

The Nelson County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the responses and, accordingly, we express no opinion on them.

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

Respectfully submitted,



Percy and Gray, PSC

December 8, 2008

**NELSON COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2008

**NELSON COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2008

SIGNIFICANT DEFICIENCIES:

The County Lacks Adequate Segregation Of Duties Over Occupational License Fee Receipts

During the course of the audit, the auditor observed that duties related to the receipts of occupational license fees are not adequately segregated. The Occupational License Administrator receives Occupational License Fee payments that are paid to the order of the Nelson County License Administrator by local businesses. These receipts are generally received via mail. The Nelson County Occupational Tax Administrator opens the mail, records receipts in the accounting system and prepares the deposit slip. The deposit slip and checks are given to the County Treasurer who is responsible for physically depositing funds in the financial institution. We recommend the following compensating controls be implemented to offset this deficiency:

- A person, who is independent of recording Occupational License Fee receipts in the accounting system, should open all Occupational License Fee payments addressed to the Nelson County License Administrator and prepare a list of all payments received.
- The County Treasurer should reconcile all receipts that the County received from the Occupational License Administrator to the recorded amounts per the Occupational License Administrator records on a monthly basis.

County Judge/Executive Watts' Response: County staff will shift duties to improve segregation and internal controls.

NONCOMPLIANCE

The County Should Enter Into Written Agreements With Depository Institutions Stating Collateral Will Be Pledged To Protect Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amounts of public funds or deposits at all times. During our review of the collateralization of deposits, we discovered that on August 31, 2007, \$841,972 of the County's deposits of public funds in one depository institution was uncollateralized and uninsured. On June 30, 2008, all of County's deposits of public funds in its depository institutions were collateralized and insured. However, there were no written agreements between the County and the depository institutions, signed by both parties, securing the County's interest in the collateral. We recommend the County enter into written agreements with its depository institutions to secure the County's interest in the collateral pledged or provided by the depository institutions. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Judge/Executive Watts' Response: Banks are aware of this requirement and in this case, failed to provide sufficient collateral. The auditor's office does not require a written agreement. Additionally, a written agreement would not have eliminated this oversight by the bank.

Auditor's Reply: A written collateral security agreement is not a requirement of the auditor's office, but a federal requirement.

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

NELSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2008**

Appendix A

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE
AND DEVELOPMENT FUND PROGRAMS

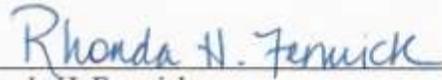
NELSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2008

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



Dean Watts
County Judge/Executive



Rhonda H. Fenwick
County Treasurer

