

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

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

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 Mountjoy Chilton Medley, LLP, 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, 2010, which collectively comprise the County's basic financial statements.

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

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NELSON COUNTY FISCAL COURT

June 30, 2010

Mountjoy Chilton Medley, LLP has completed the audit of the Nelson County Fiscal Court as of and for fiscal year ended June 30, 2010.

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 \$37,537,378 as of June 30, 2010. The fiscal court had unrestricted net assets of \$1,196,599 in its governmental activities as of June 30, 2010, with total net assets for governmental activities of \$24,683,226. In its business-type activities, total net cash and cash equivalents were \$1,088,481 with total net assets of \$12,854,152. The fiscal court had total debt principal as of June 30, 2010, of \$12,290,969 with \$624,450 due within the next year.

Deposits:

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

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
NELSON COUNTY OFFICIALS	3
MANAGEMENT’S DISCUSSION AND ANALYSIS	4
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	21
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	24
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	28
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	33
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	37
BUDGET TO ACTUAL - MAJOR GOVERNMENTAL FUNDS	41
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS	46
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS	50
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS	55
NOTES TO BASIC FINANCIAL STATEMENTS	58
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	77
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	81
BUDGETARY COMPARISON STATEMENTS – OTHER FUNDS	85
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	93
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



Mountjoy
Chilton
Medley

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

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, 2010, 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund, county road aid 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
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Dean Watts, Nelson County Judge/Executive
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 20, 2010 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 is important for assessing the results of our audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Mountjoy Chilton Medley LLP".

Mountjoy Chilton Medley, LLP

December 20, 2010

NELSON COUNTY OFFICIALS**For The Year Ended June 30, 2010****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
Administrative Secretary	Greta Cecil
County Engineer	Jim Lemieux
Landfill Manager	Brad Spalding
Director of Ambulance Services	Joe Prewitt
Building Inspection Supervisor	Logan Spalding
Emergency Management Administrator	Joe Osborne

COUNTY OF NELSON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

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, 2010, 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 19.

FINANCIAL HIGHLIGHTS

- The County's overall net assets declined 4% or \$1.76 million as the depreciation of capital assets exceeds the County's investment in new assets
- Overall, total revenues decreased 1.8%, and expenses decreased 0.9%;
- Occupational license revenues increased 7% over the prior year, even with the economic recession, layoffs, and local unemployment rates reaching as high as 15% in February 2010;
- State funding remained steady in comparison to the prior year. The County did receive additional blacktop funding totaling \$460,000, Open Dump Grant funding for two projects totaling \$36,700, and an Emergency Flood Grant of \$10,000. State funding reductions were noted in transportation grants (\$21,000), and county road aid (\$39,000). Federal funding increased due to a \$121,500 grant from the Help America Vote Act, which allowed for the purchase of new voting machines throughout the county.
- Property tax revenues increased 2.9% overall, similar to the prior year.
- Current assets increased 16%, as the County cut spending and analyzed budget expenditures during the year; long-term debt decreased 4.6%, as the County incurred no additional debt during the year.
- The County sold 16.65 acres on Airport Road to Mago Construction Company in December 2009, total sale proceeds were \$286,000. These funds are currently being held and reserved for design and construction of a new senior citizen center.

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 19) and the Statement of Activities (page 21) 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 24) 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 (capital assets and long-term debt) 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 (OLF) Fund are classified as major because these funds report significant segments of the governmental activities. Details about these funds are reported on pages 24 through 30. Local Government Economic Assistance (LGEA), Haz Mat 5 operating, and Federal & State Grants are classified as non major. Details for these funds can be found on pages 63 through 65.

In the business-type activities, the EMS, Solid Waste, Landfill Funds, and PIC are classified as major. The Jail Canteen fund is non-major. Details for the business-type activities can be found on pages 37 through 44.

Budgetary Comparisons: Major governmental fund budgetary comparisons have been included with the basic financial statements and are presented on pages 32 through 35.

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 46.

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 Schedules for the nonmajor funds on pages 63 through 65 and Budgetary Comparison Schedules for the nonmajor governmental funds and all proprietary funds on pages 67 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 the annual 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.

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

The financial schedules of the County as a whole begin on page 19. The government-wide financial statements are presented on pages 19 through 22. 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 a 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 24. The fund financial statements begin on page 24 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, Haz Mat 5 Operating, 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 EMS Service, Solid Waste Pickup, Landfill, and Public Improvement Corporations. The jailer also operates a jail canteen which is presented as a proprietary fund. 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.

A FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets—Modified Cash Basis

You can find the Statement of Net Assets on page 19. Net assets as of June 30, 2010 are summarized below. Balances for June 30, 2009 are also presented to provide a two-year comparison.

Table 1
Net Assets of Governmental and Business-Type Activities
June 30, 2010

	2010		2009	
	Governmental Activities	Business-type Activities	Total Primary Government	Total Primary Government
Current and other assets	\$ 1,984,021	\$ 7,101,576	\$ 9,085,597	\$ 8,012,118
Capital assets	23,624,705	17,203,545	40,828,250	44,503,036
Total assets	25,608,726	24,305,121	49,913,847	52,515,154
Long-term debt outstanding	840,000	11,450,969	12,290,969	12,889,141
Other liabilities	85,500		85,500	97,500
Total liabilities	925,500	11,450,969	12,376,469	12,986,641
Net assets:				
Invested in capital assets, net of debt	22,784,705	8,610,233	31,394,938	34,471,552
Restricted	701,922	3,011,618	3,713,540	2,652,690
Unrestricted	1,196,599	1,232,301	2,428,900	2,404,271
Total Net Assets	\$ 24,683,226	\$ 12,854,152	\$ 37,537,378	\$ 39,528,513

Restricted governmental funds are reserved for road improvements in accordance with state requirements for the County Road Aid and Local Government Economic Assistance statutes. \$3 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 30% 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 \$8.4 million of the total \$12.29 million in debt (or 68% of the outstanding long-term debt).

Changes in Net Assets—Modified Cash Basis

You can find the Statement of Activities on pages 21 and 22. For the year ended June 30, 2010 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, 2010

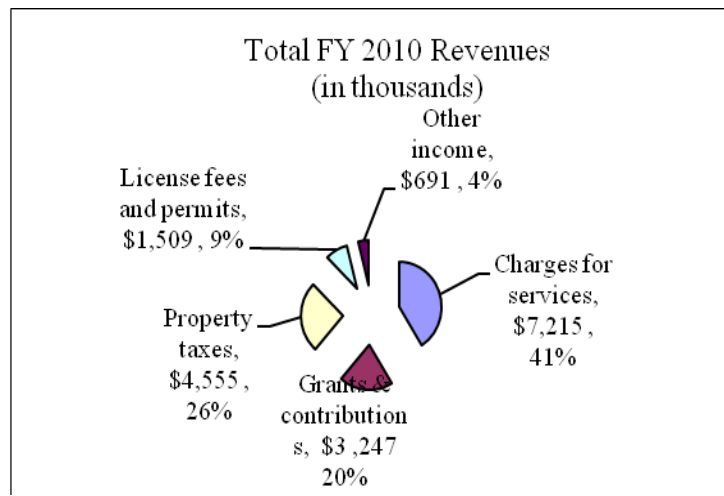
	2010		2009	
	Governmental Activities	Business-type Activities	Total Primary Government	Total Primary Government
Revenues:				
Program revenues:				
Charges for services	\$ 583,622	\$ 6,632,042	\$ 7,215,664	\$ 7,341,864
Grant funding	3,247,619	177,969	3,425,588	3,732,473
Capital contributions	110,912		110,912	198,528
General revenues:				
Property taxes	4,555,198		4,555,198	4,427,039
Transient room tax	146,600		146,600	141,893
License fees and permits	1,508,710		1,508,710	1,455,950
Interest and investment earnings	55,942	83,146	139,088	242,736
Gain/Loss on transfer of assets		61,000	61,000	(103,382)
Miscellaneous	267,024	138,707	405,731	346,503
Total Revenues	10,475,627	7,092,864	17,568,491	17,783,604
Program Expenses:				
General government	2,796,143	1,139,761	3,935,904	3,790,249
Public Protection	2,853,285	2,315,771	5,169,056	5,395,180
Recreation	625,423		625,423	620,605
Road maintenance	4,746,470		4,746,470	4,902,790
General health & sanitation	718,417	3,812,406	4,530,823	4,444,765
Social services	114,667		114,667	122,563
Transportation	206,601		206,601	227,748
Total Expenses	12,061,006	7,267,938	19,328,944	19,503,900
Excess (deficiency) before transfers and special items	(1,585,379)	(175,074)	(1,760,453)	(1,720,296)
Transfers	151,000	(151,000)		
Increase (decrease) in net assets	\$ (1,434,379)	\$ (326,074)	\$ (1,760,453)	\$ (1,720,296)

In total, charges for services remained steady from 2009 to 2010. Solid waste collection revenues increased 4% while landfill disposal revenues and housing permit revenues declined 5% and 3% respectively, correlating to the sluggish housing construction market. Ambulance service revenue was flat, showing only a 0.3% increase.

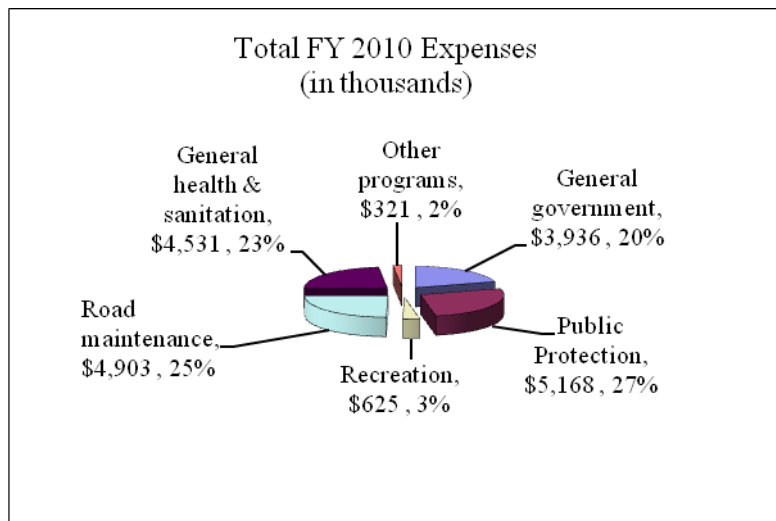
Changes in Net Assets—Modified Cash Basis (Continued)

Grant funding decreased due to state budgetary constraints. State school transportation reimbursements were 13% lower than the prior year; county roads received 4% less monies than in FY 2009.

Property taxes are only 26% of total revenues and fund only 38% of governmental operations. The occupational license fee contributes additional funding (\$1,080,000) for both governmental and proprietary activities. \$335,000 is used to subsidize EMS operations and the balance is used for jail and road maintenance. Charges for services provide 42% 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.

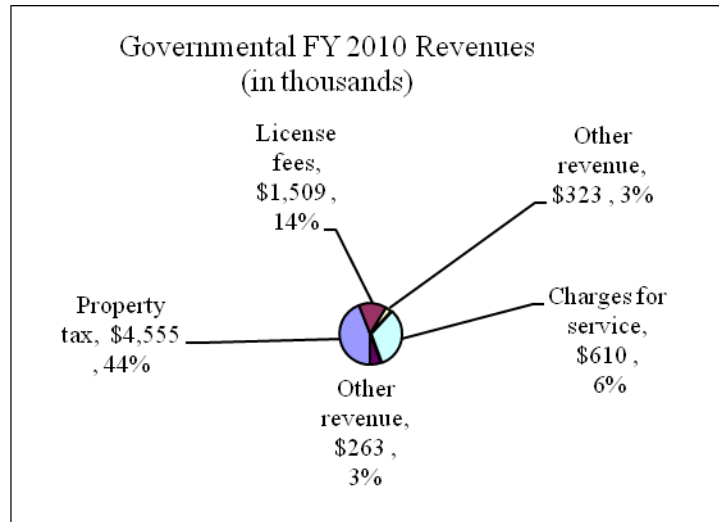


25% of Nelson County’s total expenses are incurred for road improvements and maintenance. EMS, Jail, and Law Enforcement account for 27%, while the Solid Waste and Landfill are 23% of the total. General government expenses include costs to help support the Planning & Zoning administration, County Attorney, 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.

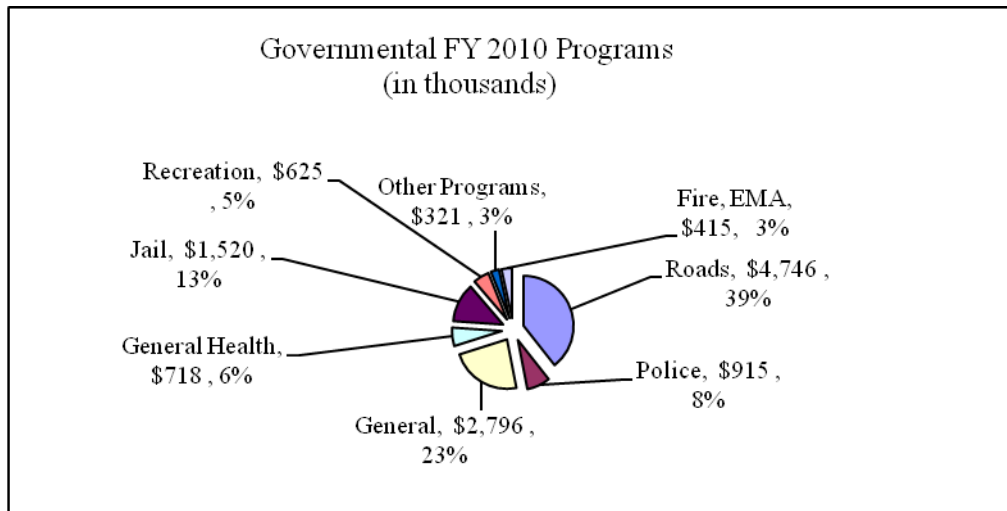


Governmental Activities

Property tax and the occupational license fee provide 58% of the resources for governmental services. Recurring intergovernmental revenues include excess fees transferred from the Sheriff and County Clerk (\$535,055), State Road Aid (\$1.82 million) and a variety of other state revenue sharing programs. License fees include the deed tax (\$115,000), code enforcement fees (\$254,000) and the occupational license fee (\$1,080,000).



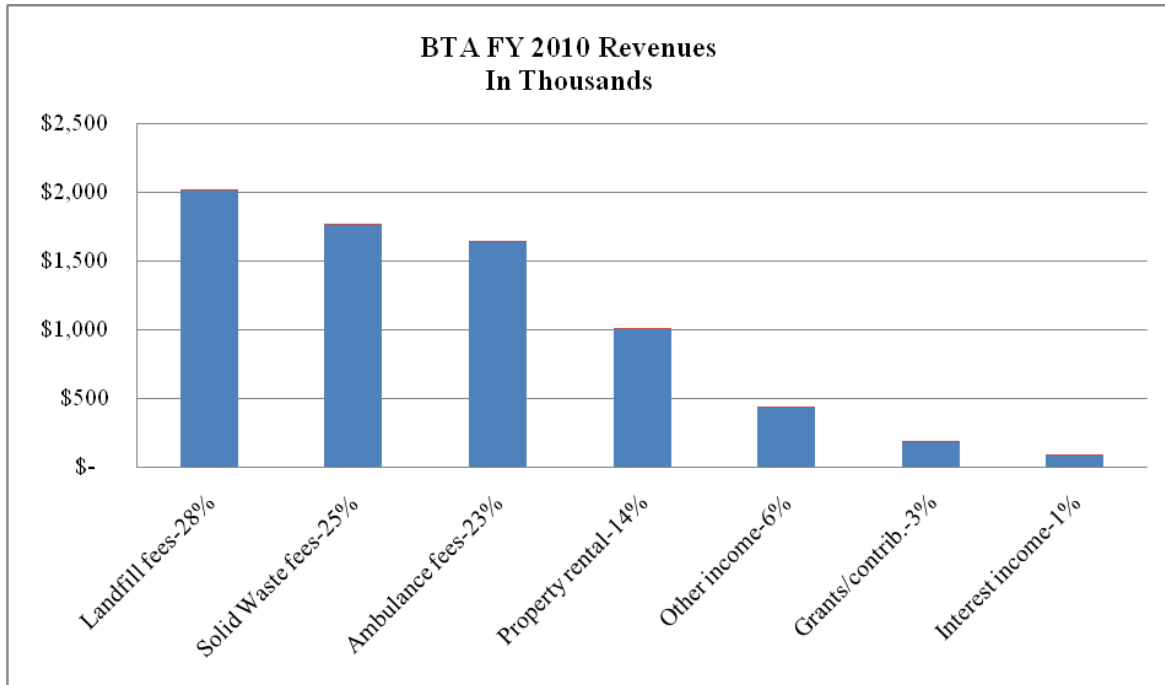
Governmental expenses use these resources for a wide variety of programs. Roads (39%) are our major program. Additional services include the Jail (13%), County Police (8%), Recreation (5%), and other programs. Other public safety programs include building inspection and contributions to local fire departments. General Health and Safety includes the Division of Animal Control and the subsidy to the County Health Department.



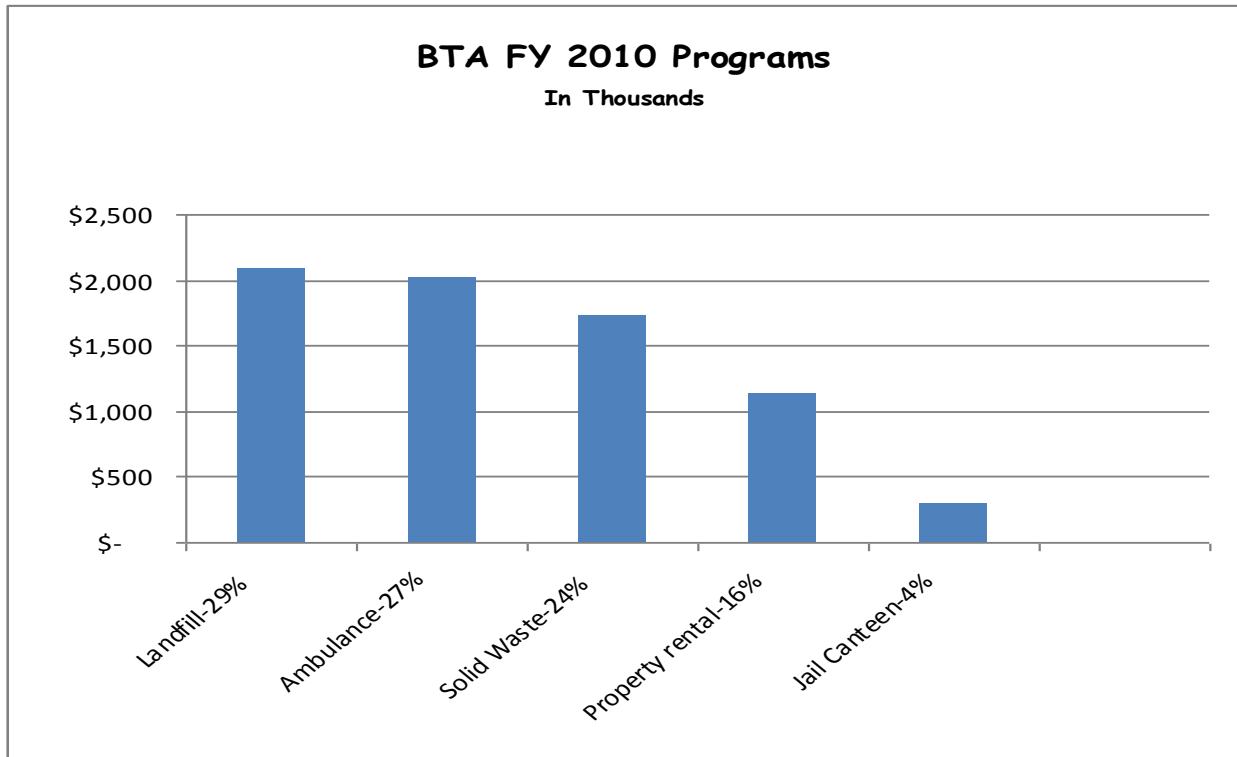
Nelson County, Kentucky
Management Discussion & Analysis
For The Year Ended June 30, 2010
(Continued)

Business-Type Activities

Charges for services are the largest resource in the business-type activities. In FY 2010, the Landfill generated 28% of the total proprietary revenues, solid waste collection 25%, EMS 23%, and property management represented 14%.



Business-Type Activities (Continued)



The program analysis, however, indicates that Landfill and EMS costs are the largest components (56%) and explains the \$335,000 subsidy from OLF for the ambulance service. Landfill and solid waste collections usually generate profits that are set aside for future capital asset investments within these programs.

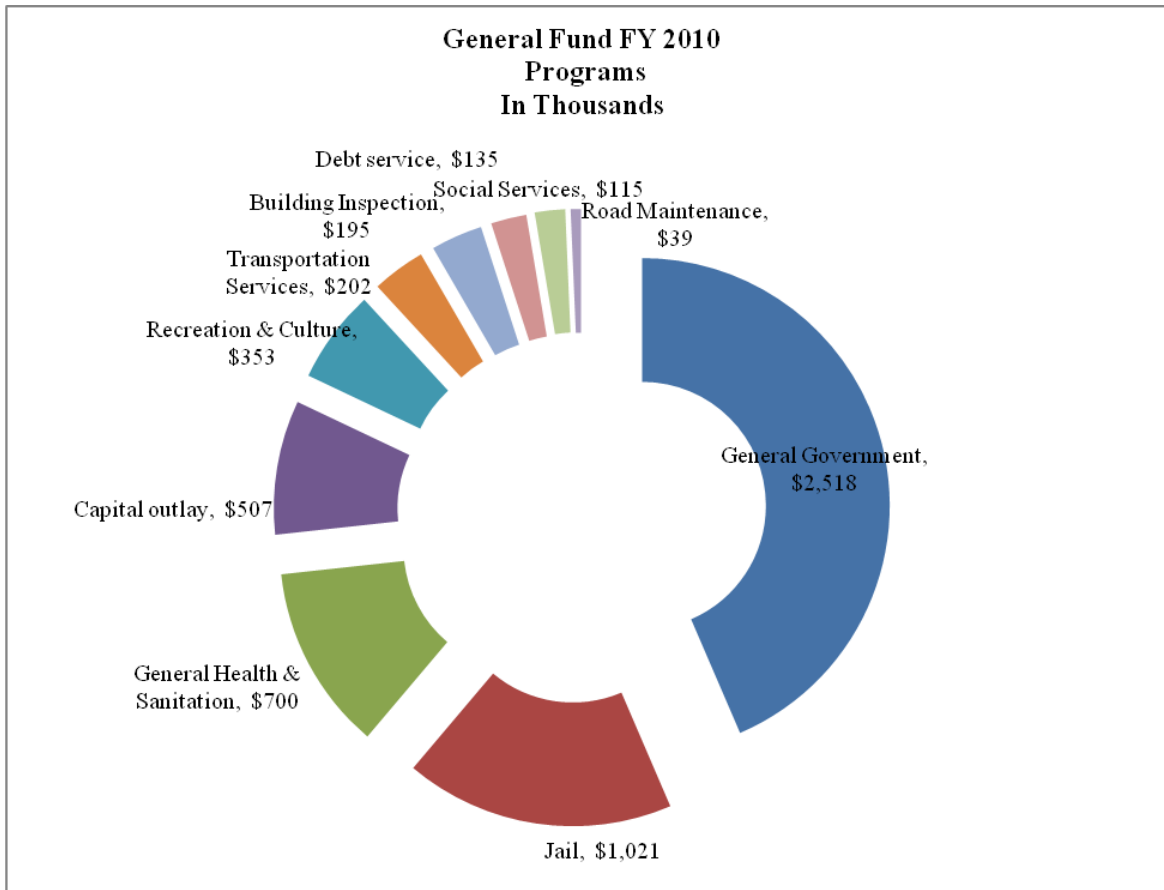
Property rental includes the Justice Center lease with the Commonwealth of Kentucky that funds the debt service on those bonds. Recreation programs are break-even with pass-through grants for specific programs.

A FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The fund statements on pages 24 through 30 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 2% expended during FY 2010. The subsidy to the Jail represents 18% of the General Fund outlays which funds 60% 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 KY State Local Finance Officer.

A FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS (Continued)



Road Fund maintenance remained comparable to the prior year.

The costs of operating the Jail increased \$34,000 (2%) compared to FY 2009 due mostly to contracts with other counties to house female and juvenile prisoners. Prisoner fees for bookings, board, and canteen inventories decreased \$38,000 (31%) from the prior year. These factors, plus the installation of a new smoke-evacuation system resulted in an increased subsidy from the General Fund of \$88,000, which is an 11% increase from FY 2009.

OLF revenues increased 7% from FY 2009 collections. These revenues are expected to remain steady for the upcoming year due to the continued economic recession, high unemployment rate, and the continued slowdown in the construction sector.

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 for the governmental funds on pages 32 through 35 and the business-type activities and nonmajor funds on pages 67 through 72.

Budget amendments during FY 2010 provided additional funding for the following projects:

- 1) Purchase two additional vehicles for the sheriff's department.
- 2) Provide additional blacktop funding for county roads.
- 3) Funding for special election in December 2009 to elect State Senator
- 4) Recognized an increase in Distilled Spirits property tax revenue of \$100,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets—Modified Cash Basis

At June 30, 2010, the County had over \$40 million invested in capital assets, net of depreciation. Almost 79% of the governmental assets and 47% 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 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. Additional information can be found in Note 6 to the financial statements.

Nelson County's Capital Assets (net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 1,684,346	\$ 1,304,600	\$ 2,988,946
Land improvements	344,167	3,572,233	3,916,400
Buildings	2,973,244	9,556,814	12,530,058
Vehicles	396,131	1,916,072	2,312,203
Computers	712	2,627	3,339
Equipment	345,645	422,134	767,779
Infrastructure	17,880,460	429,065	18,309,525
Total	<u>\$ 23,624,705</u>	<u>\$ 17,203,545</u>	<u>\$ 40,828,250</u>

Major capital additions during FY 2010 include:

- 1) Lighting, drainage, and fencing projects at Dean Watts Park (\$159,048);
- 2) Roofing at Wickland (\$35,305);
- 3) Purchase of four automobiles for Law Enforcement (\$91,879);
- 4) Landfill purchased Caterpillar Highlift (\$222,651);
- 5) EMS purchased emergency vehicle (\$46,208);
- 6) Renovation to Samuels Hall at the Nelson Co Fairgrounds (\$13,700);
- 7) Smoke evacuation system and entrance gate at Jail (\$36,206);
- 8) Voting machines and other election equipment (\$155,515);
- 9) Road and bridge improvements included improvements to Irish Ridge Road (\$83,605), Mobley Mill Road (\$75,420), Jim Clark Road (\$56,225), Farmaway Drive (\$52,733), Yates Cooney Neck Road (\$49,834), Leamon Ford (\$49,051), Plum Run (\$46,990), Stringtown Road (43,427), Blanton Ford (36,391), Antlers Trace (\$36,228), Fogle Road (\$33,682), annual paving for other district projects (\$388,736). Bridge improvements were made on Whitesides Road (\$722) and Green Chapel Road (\$9,868).
- 10) PIC improved portions of Parkway Drive in the Industrial Park (\$16,396) to facilitate development of that property. This road will eventually be transferred to the County Road inventory.

Long-Term Debt—Modified Cash Basis

At June 30, 2010, the County had \$12.3 million in long-term debt arising from modified cash basis transactions compared to \$12.9 million at June 30, 2009. Nelson County retired \$598,172 in debt with annual payments on notes, leases, and bonds.

There were no completed debt retirements in FY 2010 and the County did not incur any new debt.

Long-Term Debt—Modified Cash Basis (Continued)

Category	MD&A Table 4 Nelson County's Outstanding Debt		FY 2010 Total	FY 2009 Total
	Governmental Activities	Business-Type Activities		
Bonds	\$ 840,000	\$ 8,410,000	\$ 9,250,000	\$ 940,000
Notes		2,857,657	2,857,657	11,737,657
Capital leases		183,312	183,312	211,484
Total	\$ 840,000	\$ 11,450,969	\$ 12,290,969	\$ 12,889,141

Nelson County's outstanding debt is only 30% 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, and an airport hangar at Samuels Field. 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Several trends that continued from FY 2009 to FY 2010 signaled a continued struggling economy and economic development in Nelson County has been mixed. The County is faced with bringing in new and varied businesses while also looking for new ways to utilize and expand current industries. The 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 at the Nelson Industrial Park will continue, in hopes of selling more lots to new industries that will expand the employment opportunities in Nelson County and the surrounding counties.

With budget strains 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 as subdivisions were added.

Budget pressures continue in FY 2011. Declines continue with School Transportation grants (13%), and the County Road Aid (4%). The costs for salt and snow removal have increased 125% over the last year, and fuel costs remain unpredictable. Health insurance costs decreased overall for the county this year. The State of Kentucky continues to make cuts in all departments, which ultimately affect the county as well.

The unemployment rate in Nelson County in September 2010 was 10.4%, which is 0.9% lower than the 11.3% rate from September 2009. This compares unfavorably to the state rate of 9.8% and the national rate of 9.2% for the same period.

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 Fenwick. 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.nelsoncountyky.com.

THIS PAGE LEFT BLANK INTENTIONALLY

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

June 30, 2010

NELSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,947,210	\$ 1,088,481	\$ 3,035,691
Investments	36,811	3,011,618	3,048,429
Land for resale		3,001,477	3,001,477
Capital assets, net	23,624,705	17,203,545	40,828,250
Total assets	<u>25,608,726</u>	<u>24,305,121</u>	<u>49,913,847</u>
LIABILITIES			
Deposits	85,500		85,500
Long-Term Liabilities:			
Due within one year	105,000	519,450	624,450
Due in more than one year	735,000	10,931,519	11,666,519
Total liabilities	<u>925,500</u>	<u>11,450,969</u>	<u>12,376,469</u>
NET ASSETS			
Invested in capital assets, net of related debt	22,784,705	8,610,233	31,394,938
Restricted for:			
Infrastructure	415,922	3,011,618	3,427,540
Special projects	286,000		286,000
Unrestricted	1,196,599	1,232,301	2,428,900
Total net assets	<u>\$ 24,683,226</u>	<u>\$ 12,854,152</u>	<u>\$ 37,537,378</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

NELSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010

NELSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$ (2,796,143)	\$ 182,089	\$ 779,714	
Public Protection				
Jail	(1,519,810)	394,033	74,953	
Law Enforcement	(915,320)		305,270	
Building Inspection	(199,385)			
Fire Protection	(30,000)			
Emergency Management	(180,901)			
Public Advocacy	(4,685)			
HazMat 5	(3,184)			
General Health & Sanitation	(718,417)	7,500		
Social Services	(114,667)			
Recreation & Culture	(625,423)			110,912
Road Maintenance	(4,746,470)		2,087,682	
Transportation Services	(206,601)			
Total governmental activities	(12,061,006)	583,622	3,247,619	110,912
Business-type activities:				
Public Properties Improvement	(1,139,761)	1,002,540		
Jail Canteen	(290,365)	230,541		
EMS	(2,025,406)	1,633,614		72,752
Landfill	(2,088,023)	2,007,172	46,725	
Solid Waste	(1,724,383)	1,758,175	58,492	
Total business-type activities	(7,267,938)	6,632,042	105,217	72,752
Total primary government	(19,328,944)	7,215,664	3,352,836	183,664

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, 2010 (Continued)

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,834,340)		\$ (1,834,340)
(1,050,824)		(1,050,824)
(610,050)		(610,050)
(199,385)		(199,385)
(30,000)		(30,000)
(180,901)		(180,901)
(4,685)		(4,685)
(3,184)		(3,184)
(710,917)		(710,917)
(114,667)		(114,667)
(514,511)		(514,511)
(2,658,788)		(2,658,788)
(206,601)		(206,601)
<u>(8,118,853)</u>		<u>(8,118,853)</u>
	(137,221)	(137,221)
	(59,824)	(59,824)
	(319,040)	(319,040)
	(34,126)	(34,126)
	92,284	92,284
	<u>(457,927)</u>	<u>(457,927)</u>
<u>(8,118,853)</u>	<u>(457,927)</u>	<u>(8,576,780)</u>
4,555,198		4,555,198
146,600		146,600
1,508,710		1,508,710
55,942	83,146	139,088
	61,000	61,000
267,024	138,707	405,731
151,000	(151,000)	
<u>6,684,474</u>	<u>131,853</u>	<u>6,816,327</u>
(1,434,379)	(326,074)	(1,760,453)
<u>26,117,605</u>	<u>13,180,226</u>	<u>39,297,831</u>
<u>\$ 24,683,226</u>	<u>\$ 12,854,152</u>	<u>\$ 37,537,378</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

NELSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

NELSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	<u>General Fund</u>	<u>County Road Aid</u>	<u>Jail</u>	<u>OLF</u>
ASSETS				
Cash and cash equivalents	\$ 1,373,483	\$ 279,651	\$	\$ 162,116
Investments		36,811		
	<u>1,373,483</u>	<u>316,462</u>		<u>162,116</u>
Total assets	<u>\$ 1,373,483</u>	<u>\$ 316,462</u>		<u>\$ 162,116</u>
LIABILITIES				
Road Bonds		32,500		
Encroachment permits	53,000			
	<u>53,000</u>	<u>32,500</u>		
Total liabilities (Note 2)	<u>53,000</u>	<u>32,500</u>		
FUND BALANCES				
Reserved for:				
Infrastructure	\$	\$ 283,962	\$	\$
Special projects	286,000			
Unreserved, reported in:				
General fund	1,034,483			
OLF				162,116
Total fund balances	<u>1,320,483</u>	<u>283,962</u>		<u>162,116</u>
Total liabilities and fund balances	<u>\$ 1,373,483</u>	<u>\$ 316,462</u>	<u>\$</u>	<u>\$ 162,116</u>

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

NELSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2010
(Continued)

<u>Non Major Funds</u>	<u>Total Governmental Funds</u>
\$ 131,960	\$ 1,947,210 36,811
<u>\$ 131,960</u>	<u>\$ 1,984,021</u>
	32,500
	53,000
	<u>85,500</u>
\$ 131,960	\$ 415,922 286,000
	1,034,483
	<u>162,116</u>
<u>131,960</u>	<u>1,898,521</u>
<u>\$ 131,960</u>	<u>\$ 1,984,021</u>

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

Total Fund Balance	\$ 1,898,521
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets (net of depreciation) used in governmental activities	23,624,705
Long-term debt not due and payable in the current period	(840,000)
Net assets of governmental activities	<u>\$24,683,226</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

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

For The Year Ended June 30, 2010

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

For The Year Ended June 30, 2010

	General	County Road Aid	Jail	OLF	Non Major Funds	Total Governmental Funds
REVENUES:						
Taxes	\$ 4,701,798	\$	\$	\$	\$	\$ 4,701,798
Business licenses	428,850			1,079,860		1,508,710
Fines & forfeitures						
Intergovernmental revenues	1,084,984	1,906,613	74,953		181,069	3,247,619
Charges for services	300,501		394,033			694,534
Interest	41,388	12,002		208	2,344	55,942
Other	123,767	4,042	139,215			267,024
Total revenues	<u>6,681,288</u>	<u>1,922,657</u>	<u>608,201</u>	<u>1,080,068</u>	<u>183,413</u>	<u>10,475,627</u>
EXPENDITURES:						
Current operating:						
General Government	2,518,055			93,777		2,611,832
Public Protection						
Jail			1,492,249			1,492,249
Law Enforcement	803,606					803,606
Building Inspection	195,224					195,224
Fire Protection	30,000					30,000
Emergency Management	174,584					174,584
Public Advocacy	4,685					4,685
HazMat 5					3,184	3,184
General Health & Sanitation	699,788					699,788
Social Services	114,667					114,667
Recreation & Culture	352,732					352,732
Road Maintenance	39,181	1,331,883			128,729	1,499,793
Transportation Services	201,801			4,800		206,601
Capital outlay	507,495	1,009,231	36,474			1,553,200
Debt service:						
Principal	100,000					100,000
Interest	34,895					34,895
Total expenditures	<u>5,776,713</u>	<u>2,341,114</u>	<u>1,528,723</u>	<u>98,577</u>	<u>131,913</u>	<u>9,877,040</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	<u>904,575</u>	<u>(418,457)</u>	<u>(920,522)</u>	<u>981,491</u>	<u>51,500</u>	<u>598,587</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, 2010
(Continued)

	General	County Road Aid	Jail	OLF	Non Major Funds	Total Governmental Funds
Other Financing Sources (Uses):						
Transfers in	536,000	620,000	920,522			2,076,522
Transfers out	(1,020,522)	-		(905,000)		(1,925,522)
Total transfers and other sources	<u>(484,522)</u>	<u>620,000</u>	<u>920,522</u>	<u>(905,000)</u>		<u>151,000</u>
Net change in fund balance	420,053	201,543		76,491	51,500	749,587
Fund balances--beginning	900,430	82,419		85,625	80,460	1,148,934
Fund balances--ending	<u>\$ 1,320,483</u>	<u>\$ 283,962</u>	<u>\$</u>	<u>\$ 162,116</u>	<u>\$ 131,960</u>	<u>\$ 1,898,521</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, 2010

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, 2010

Net change in fund balances--total governmental funds	\$ 749,587
Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense reported in statement of activities	(3,837,166)
Capital outlay reported in governmental	1,553,200
Long-term debt proceeds provides current financial resources to governmental funds while payment on principal consumes current financial resources. These transactions have no effect on net assets and their activity has been eliminated from the statement of activities.	
Principal payments on long-term debt reported as governmental expenditures	100,000
Change in net assets of governmental activities	\$ (1,434,379)

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

THIS PAGE LEFT BLANK INTENTIONALLY

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

For The Year Ended June 30, 2010

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, 2010

	Original Budget	Amended Budget	Actual	Variance
Revenue				
Taxes	\$ 4,491,500	\$ 4,591,500	\$ 4,701,798	\$ 110,298
Licenses & Permits	462,100	462,100	428,850	(33,250)
Intergovernmental Revenues	824,860	1,069,660	1,084,984	15,324
Charges for Services	277,500	277,500	300,501	23,001
Other	33,500	139,400	123,767	(15,633)
Interest	40,000	40,000	41,388	1,388
Total Revenues	<u>6,129,460</u>	<u>6,580,160</u>	<u>6,681,288</u>	<u>101,128</u>
Expenditures				
General Government	2,558,340	2,634,840	2,518,055	116,785
Public Protection				
Law Enforcement	769,040	818,890	803,606	15,284
Building Inspection	210,610	210,610	195,224	15,386
Fire Protection	30,000	30,000	30,000	
Emergency Management	291,050	291,050	174,584	116,466
Public Advocacy	4,690	4,690	4,685	5
General Health & Sanitation	698,560	704,185	699,788	4,397
Social Services	131,000	131,000	114,667	16,333
Recreation & Culture	364,200	364,200	352,732	11,468
Road Maintenance	35,900	39,300	39,181	119
Transportation Services	252,400	252,400	201,801	50,599
General Debt Service:				
Principal	100,000	100,000	100,000	
Interest	34,900	34,900	34,895	5
Capital Projects	208,560	508,610	507,495	1,115
Contingencies	17,993	245,868		245,868
Total Expenditures	<u>5,707,243</u>	<u>6,370,543</u>	<u>5,776,713</u>	<u>593,830</u>
Excess of revenues over expenditures before other financing sources and uses	422,217	209,617	904,575	694,958
Other Financing Sources (Uses):				
Transfers Out	(1,209,700)	(1,209,700)	(1,020,522)	189,178
Transfers In	250,000	250,000	536,000	286,000
Total Other Financing Sources (Uses)	<u>(959,700)</u>	<u>(959,700)</u>	<u>(484,522)</u>	<u>475,178</u>
Net Changes in Fund Balance	<u>(537,483)</u>	<u>(750,083)</u>	<u>420,053</u>	<u>1,170,136</u>
Fund Balance, July 1 2009	<u>537,483</u>	<u>750,083</u>	<u>900,430</u>	<u>150,347</u>
Fund Balance, June 30 2010	<u>\$</u>	<u>\$</u>	<u>\$ 1,320,483</u>	<u>\$ 1,320,483</u>

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

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, 2010

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Intergovernmental Revenues	\$ 2,387,400	\$ 2,437,700	\$ 1,906,613	\$ (531,087)
Other	800	800	4,042	3,242
Interest	13,000	13,000	12,002	(998)
Total Revenues	<u>2,401,200</u>	<u>2,451,500</u>	<u>1,922,657</u>	<u>(528,843)</u>
Expenditures				
Road Maintenance	2,231,800	2,015,450	1,331,883	683,567
Capital Projects	500,000	1,018,650	1,009,231	9,419
Contingencies	133,171	118,171		118,171
Total Expenditures	<u>2,864,971</u>	<u>3,152,271</u>	<u>2,341,114</u>	<u>811,157</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	(463,771)	(700,771)	(418,457)	282,314
Other Financing Sources (Uses):				
Transfers In	450,000	620,000	620,000	
Total Other Financing Sources (Uses)	<u>450,000</u>	<u>620,000</u>	<u>620,000</u>	
Net Changes in Fund Balance	(13,771)	(80,771)	201,543	282,314
Fund Balance, July 1, 2009	<u>13,771</u>	<u>80,771</u>	<u>82,419</u>	<u>1,648</u>
 Fund Balance, June 30, 2010	 <u>\$</u>	 <u>\$</u>	 <u>\$ 283,962</u>	 <u>\$ 283,962</u>

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

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, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Intergovernmental Revenues	\$ 70,700	\$ 70,700	\$ 74,953	\$ 4,253
Charges for Services	304,300	304,300	394,033	89,733
Other	<u>151,000</u>	<u>151,000</u>	<u>139,215</u>	<u>(11,785)</u>
Total Revenues	526,000	526,000	608,201	82,201
Expenditures				
Public Protection	1,587,200	1,590,100	1,492,249	97,851
Capital	33,500	36,600	36,474	126
Contingencies	<u>15,000</u>	<u>9,000</u>	<u>9,000</u>	<u>9,000</u>
Total Expenditures	<u>1,635,700</u>	<u>1,635,700</u>	<u>1,528,723</u>	<u>106,977</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	(1,109,700)	(1,109,700)	(920,522)	189,178
Other Financing Sources (Uses):				
Transfers In	<u>1,109,700</u>	<u>1,109,700</u>	<u>920,522</u>	<u>(189,178)</u>
Total Other Financing Sources (Uses)	<u>1,109,700</u>	<u>1,109,700</u>	<u>920,522</u>	<u>(189,178)</u>
Net Changes in Fund Balances				
Fund Balance, July 1, 2009	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance, June 30, 2010	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>

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

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, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Occupational License Fee	\$ 842,100	\$ 1,012,100	\$ 1,079,860	\$ 67,760
Interest	300	300	208	(92)
Total Revenues	<u>842,400</u>	<u>1,012,400</u>	<u>1,080,068</u>	<u>67,668</u>
Expenditures				
General Government	102,600	102,600	93,777	8,823
Air Board Contribution	14,800	14,800	4,800	10,000
Contingencies	44,678	44,678	44,678	44,678
Total Expenditures	<u>162,078</u>	<u>162,078</u>	<u>98,577</u>	<u>63,501</u>
Excess of revenues over expenditures before other financing sources and uses	680,322	850,322	981,491	131,169
Other Financing Sources (Uses):				
Transfers Out	<u>(735,000)</u>	<u>(905,000)</u>	<u>(905,000)</u>	<u> </u>
Total Other Financing Sources (Uses)	<u>(735,000)</u>	<u>(905,000)</u>	<u>(905,000)</u>	<u> </u>
Net Changes in Fund Balance	(54,678)	(54,678)	76,491	131,169
Fund Balance, July 1, 2009	<u>54,678</u>	<u>54,678</u>	<u>85,625</u>	<u>30,947</u>
Fund Balance, June 30, 2010	<u>\$</u>	<u>\$</u>	<u>\$ 162,116</u>	<u>\$ 162,116</u>

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

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

June 30, 2010

NELSON COUNTY
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
JUNE 30, 2010

	<u>EMS</u>	<u>Solid Waste</u>	<u>Landfill</u>	<u>PIC</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 79,536	\$ 158,055	\$ 801,787	\$ 3,273
Investments			3,011,618	
Land for resale				3,001,477
Total current assets	<u>79,536</u>	<u>158,055</u>	<u>3,813,405</u>	<u>3,004,750</u>
Noncurrent assets:				
Land			1,179,946	124,654
Land improvement			9,113,628	506,357
Buildings	273,623		453,660	14,490,858
Vehicles	592,564	1,204,421	1,303,763	256,900
Computers	55,635		6,575	
Equipment	671,195	234,396	1,086,671	1,094,342
Less accumulated depreciation	<u>(940,495)</u>	<u>(761,662)</u>	<u>(7,672,462)</u>	<u>(6,071,024)</u>
Total noncurrent assets- net	<u>652,522</u>	<u>677,155</u>	<u>5,471,781</u>	<u>10,402,087</u>
Total assets	<u>\$ 732,058</u>	<u>\$ 835,210</u>	<u>\$ 9,285,186</u>	<u>\$ 13,406,837</u>
LIABILITIES				
Current liabilities:				
Capital leases				29,450
Bonds, notes, and loans payable				490,000
Total current liabilities				<u>519,450</u>
Noncurrent liabilities:				
Capital leases				153,862
Bonds, notes, and loans payable				10,777,657
Total noncurrent liabilities				<u>10,931,519</u>
Total liabilities				<u>11,450,969</u>
NET ASSETS				
Invested in capital assets, net of related debt	652,522	677,155	5,471,781	1,808,775
Restricted				
Infrastructure			3,011,618	
Unrestricted	79,536	158,055	801,787	147,093
Total net assets	<u>732,058</u>	<u>835,210</u>	<u>9,285,186</u>	<u>1,955,868</u>
Total Net Assets & Liabilities	<u>\$ 732,058</u>	<u>\$ 835,210</u>	<u>\$ 9,285,186</u>	<u>\$ 13,406,837</u>

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

NELSON COUNTY
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
June 30, 2010
(Continued)

Jail Canteen - Non Major Fund	Total Proprietary Funds
\$ 45,830	\$ 1,088,481
	3,011,618
	3,001,477
<u>45,830</u>	<u>7,101,576</u>
	1,304,600
	9,619,985
	15,218,141
	3,357,648
	62,210
	3,086,604
	<u>(15,445,643)</u>
	<u>17,203,545</u>
<u>\$ 45,830</u>	<u>\$ 24,305,121</u>
	29,450
	<u>490,000</u>
	<u>519,450</u>
	153,862
	<u>10,777,657</u>
	<u>10,931,519</u>
	<u>11,450,969</u>
	8,610,233
	3,011,618
45,830	<u>1,232,301</u>
45,830	<u>12,854,152</u>
<u>\$ 45,830</u>	<u>\$ 24,305,121</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

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

For The Year Ended June 30, 2010

NELSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
For The Year Ended June 30, 2010

	<u>EMS</u>	<u>Solid Waste</u>	<u>Landfill</u>
Operating revenues:			
Intergovernmental revenues	\$ 72,752	\$ 58,492	\$ 46,725
Charges for services	1,633,614	1,758,175	2,007,172
Other	6,452	37,625	9,570
Total operating revenues	<u>1,712,818</u>	<u>1,854,292</u>	<u>2,063,467</u>
Operating expenses:			
General Government			
Public Protection	1,866,447		
General Health & Sanitation:			
Landfill			1,410,452
Solid Waste		1,634,023	
Depreciation	158,959	90,360	677,571
Total operating expenses	<u>2,025,406</u>	<u>1,724,383</u>	<u>2,088,023</u>
Operating income (loss)	(312,588)	129,909	(24,556)
Nonoperating revenues (expenses):			
Gain (loss) on asset disposal			61,000
Interest and investment revenue	2,063	345	80,459
Interest expense			
Total nonoperating revenue (expenses)	<u>2,063</u>	<u>345</u>	<u>141,459</u>
Net income (loss) before contributions and transfers	(310,525)	130,254	116,903
Transfers in	335,000	-	560,000
Transfers out		(100,000)	(901,000)
Change in net assets	<u>24,475</u>	<u>30,254</u>	<u>(224,097)</u>
Total net assets--beginning (Restated)	707,583	804,956	9,509,283
Total net assets--ending	<u><u>732,058</u></u>	<u><u>\$ 835,210</u></u>	<u><u>\$ 9,285,186</u></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, 2010
(Continued)

PIC	Jail Canteen - Non Major Fund	Total Proprietary Funds
\$	\$	\$
1,002,540	230,541	177,969
9,500	75,560	6,632,042
<u>1,012,040</u>	<u>306,101</u>	<u>138,707</u>
27,803		27,803
	290,365	2,156,812
		1,410,452
		1,634,023
<u>683,881</u>		<u>1,610,771</u>
<u>711,684</u>	<u>290,365</u>	<u>6,839,861</u>
300,356	15,736	108,857
		61,000
-	279	83,146
<u>(428,077)</u>		<u>(428,077)</u>
<u>(428,077)</u>	<u>279</u>	<u>(283,931)</u>
(127,721)	16,015	(175,074)
415,000		1,310,000
<u>(460,000)</u>		<u>(1,461,000)</u>
<u>(172,721)</u>	<u>16,015</u>	<u>(326,074)</u>
2,128,589	29,815	13,180,226
<u>\$ 1,955,868</u>	<u>\$ 45,830</u>	<u>\$ 12,854,152</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

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

For The Year Ended June 30, 2010

NELSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For The Year Ended June 30, 2010

	<u>EMS</u>	<u>Solid Waste</u>	<u>Landfill</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,640,066	\$ 1,795,800	\$ 2,016,742
Payments to suppliers	(723,609)	(1,155,461)	(850,224)
Payments to employees	(1,142,838)	(478,562)	(560,228)
Other receipts	<u>72,752</u>	<u>58,492</u>	<u>46,725</u>
Net cash provided (used) by operating activities	<u>(153,629)</u>	<u>220,269</u>	<u>653,015</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers (to)/from other funds	<u>335,000</u>	<u>(100,000)</u>	<u>(341,000)</u>
Net cash provided by noncapital financing	<u>335,000</u>	<u>(100,000)</u>	<u>(341,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(107,863)	(69,655)	(256,954)
Proceeds from sales of capital assets			286,000
Principal paid on capital debt			
Interest paid on capital debt			
Net cash provided (used) by capital and related financing activities	<u>(107,863)</u>	<u>(69,655)</u>	<u>29,046</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	2,063	345	80,459
Investment purchases			(521,807)
Net cash provided (used) by investing activities	<u>2,063</u>	<u>345</u>	<u>(441,348)</u>
Net increase (decrease) in cash and cash equivalents	75,571	50,959	(100,287)
Cash & Cash Equivalents-beginning of the year	3,965	107,096	902,074
Cash and Cash Equivalents-end of the year	<u>\$ 79,536</u>	<u>\$ 158,055</u>	<u>\$ 801,787</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	(312,588)	129,909	(24,556)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	<u>158,959</u>	<u>90,360</u>	<u>677,571</u>
Net cash provided by operating activities	<u>\$ (153,629)</u>	<u>\$ 220,269</u>	<u>\$ 653,015</u>

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, 2010
(Continued)

	PIC	Jail Canteen - Non Major Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,012,040	\$ 306,101	\$ 6,770,749
Payments to suppliers	(27,803)	(290,365)	(3,047,462)
Payments to employees			(2,181,628)
Other receipts			177,969
Net cash provided (used) by operating activities	<u>984,237</u>	<u>15,736</u>	<u>1,719,628</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers (to)/from other funds	<u>(45,000)</u>		<u>(151,000)</u>
Net cash provided by noncapital financing	<u>(45,000)</u>		<u>(151,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt			
Purchases of capital assets	(10,480)		(444,952)
Proceeds from sales of capital assets			286,000
Principal paid on capital debt	(498,173)		(498,173)
Net cash provided (used) by capital and related financing activities	<u>(936,730)</u>		<u>(1,085,202)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends		279	83,146
Investment purchases			(521,807)
Net cash provided (used) by investing activities		<u>279</u>	<u>(438,661)</u>
Net increase (decrease) in cash and cash equivalents	2,507	16,015	44,765
Cash & Cash Equivalents-beginning of the year	766	29,815	1,043,716
Cash and Cash Equivalents-end of the year	<u>\$ 3,273</u>	<u>\$ 45,830</u>	<u>\$ 1,088,481</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	300,356	15,736	108,857
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	683,881		1,610,771
Net cash provided by operating activities	<u>\$ 984,237</u>	<u>\$ 15,736</u>	<u>\$ 1,719,628</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	46
NOTE 2—STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY	53
NOTE 3—CASH AND INVESTMENTS	53
NOTE 4—RECEIVABLES	54
NOTE 5—LAND HELD FOR RESALE	54
NOTE 6—CAPITAL ASSETS	55
NOTE 7—LONG-TERM DEBT	56
NOTE 8—INTERFUND TRANSFERS AND BALANCES	59
NOTE 9—PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS	60
NOTE 10—COMMITMENTS AND CONTINGENCIES	61
NOTE 11—RISK MANAGEMENT	61
NOTE 12—PRIOR PERIOD ADJUSTMENT	73

**NELSON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Nelson County Fiscal Court 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 NCPIC 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.

OTHER CONSTITUTIONAL (ELECTED) OFFICIALS

The Kentucky constitution 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. 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, 2010, the County had twelve 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, HazMat Region 5 Response, Federal and State Grant Funds, and Jail Canteen.

The funds of the County are described below:

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.
HazMat Region 5 Response	Accounts for the revenues and expenditures of the Region 5 Hazardous Response Board. The County Treasurer deposits funds from local contributions and state and federal grants, and also remits funds to vendors for purchases approved by the regional board.

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.

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.

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.

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

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 of 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.

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

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

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 assets 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.

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.

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.

1.G. USE OF ESTIMATES

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, 2010, 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	\$ 2,750,000
Uninsured, collateralized	<u>3,334,120</u>
Total Deposits	<u>\$6,084,120</u>

INVESTMENTS AND CUSTODIAL CREDIT RISK

During the year ended June 30, 2010, 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 \$3,048,429. For purposes of the custodial credit risk, the certificates of deposit are included in the preceding table of deposits risk analysis.

CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. Nelson County Fiscal Court does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). During the fiscal year deposits were covered by FDIC insurance or a properly executed collateral security agreement.

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, 2010.

- 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. As of June 30, 2010, the principal balance due was \$471.
- 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. As of June 30, 2010 the principal balance due was \$11,566.
- C. The county loaned \$2,167 each to twelve residents of the Bellwood Road Area #2 on December 20, 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. As of June 30, 2010, the principal balance due was \$797.

NOTE 5—LAND HELD FOR RESALE

In July 2004, Nelson County Fiscal Court purchased 424 acres to develop 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 six years, infrastructure additions have been made to develop the property, including a water tank, initial sewer line installation, and the completion of Parkway Drive. The county is currently researching state funding to assist with infrastructure for the Park. As of June 30, 2010, the County has spent a total of \$5,063,730 on this development.

Nelson County
Notes To Basic Financial Statements
June 30, 2010
(Continued)

NOTE 6—CAPITAL ASSETS

Capital asset activity resulting from modified cash basis transactions, for the fiscal year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Transfers & Retirements	Ending Balance
Governmental activities:				
Land	\$ 1,684,346	\$	\$	\$ 1,684,346
Land improvements	1,169,157	159,048		1,328,205
Buildings	12,239,345	101,053		12,340,398
Vehicles	1,928,503	115,357		2,043,860
Computers	55,091			55,091
Equipment	854,124	208,126	(163,535)	898,715
Infrastructure	92,327,355	969,616		93,296,971
Totals at historical cost	110,257,921	1,553,200	(163,535)	111,647,586
Land improvements	(783,291)	(200,747)		(984,038)
Buildings	(9,172,851)	(194,303)		(9,367,154)
Vehicles	(1,528,797)	(118,932)		(1,647,729)
Computers	(49,533)	(4,846)		(54,379)
Equipment	(588,726)	(127,879)	163,535	(553,070)
Infrastructure	(72,226,052)	(3,190,459)		(75,416,511)
Total accumulated depreciation	(84,349,250)	(3,837,166)	163,535	(88,022,881)
Governmental activities capital assets, net	<u>\$ 25,908,671</u>	<u>\$ (2,283,966)</u>	<u>\$</u>	<u>\$ 23,624,705</u>
Business-type activities:				
Land	\$ 1,529,600	\$	\$ (225,000)	\$ 1,304,600
Land improvements	9,610,973	9,012		9,619,985
Buildings	15,212,127	6,016		15,218,143
Vehicles	3,001,808	355,841		3,357,649
Computers	62,210			62,210
Equipment	1,928,660	63,601		1,992,261
Infrastructure	1,083,860	10,482		1,094,342
Totals at historical cost	32,429,238	444,952	(225,000)	32,649,190
Land improvements	(5,473,037)	(574,715)		(6,047,752)
Buildings	(5,227,455)	(433,874)		(5,661,329)
Vehicles	(1,200,950)	(240,627)		(1,441,577)
Computers	(58,925)	(658)		(59,583)
Equipment	(1,425,434)	(144,693)		(1,570,127)
Infrastructure	(449,072)	(216,205)		(665,277)
Less accumulated depreciation:	(13,834,873)	(1,610,772)		(15,445,645)
Business-type activities capital assets, net	<u>\$ 18,594,365</u>	<u>\$ (1,165,820)</u>	<u>\$ (225,000)</u>	<u>\$ 17,203,545</u>

Nelson County
Notes To Basic Financial Statements
June 30, 2010
(Continued)

NOTE 6—CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General Government	149,416
Public Protection	
Jail	27,561
Law Enforcement	111,714
Building Inspection	4,161
Fire Protection	
Emergency Management	6,317
Public Advocacy	
General Health & Sanitation	18,629
Social Services	
Recreation & Culture	272,691
Road Maintenance	3,246,677
	<u>\$ 3,837,166</u>

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 activities for the year ended June 30, 2010, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
GOVERNMENTAL ACTIVITIES:					
Bond & notes payable:					
2007 GO Bonds	\$ 940,000	\$	\$ (100,000)	\$ 840,000	\$ 105,000
Total other liabilities	\$ 940,000	\$	\$ (100,000)	\$ 840,000	\$ 105,000

Nelson County
Notes To Basic Financial Statements
June 30, 2010
(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:					
Industrial Park	\$ 2,857,657	\$	\$	\$ 2,857,657	\$
Justice Center-2002	8,600,000		(455,000)	8,145,000	475,000
Justice Center-2003	280,000		(15,000)	265,000	15,000
Total bonds & notes	11,737,657		(470,000)	11,267,657	490,000
Capital leases					
N Nelson fire truck	29,000		(14,000)	15,000	15,000
Main hangar	65,000		(5,000)	60,000	5,000
New Hope Fire Truck	117,484		(9,172)	108,312	9,450
Total Capital Leases	211,484		(28,172)	183,312	29,450
Business-type activities long-term liabilities	\$ 11,949,141	\$	\$ (498,172)	\$ 11,450,969	\$ 519,450

General Government on the Statement of Activities in Governmental Activities includes \$34,895 in interest on long-term debt and General Government in Business-type Activities includes \$428,077 in interest on long-term debt.

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 \$55,000) due semiannually in November and May until May 15, 2017.

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. Both parties exercised the option to extend the due date on July 26, 2009 for five years. Principal is due and payable on or before July 26, 2014, with the option to extend the due date for one additional five year period. The note currently bears interest at 1.47%, to be adjusted annually on July 26 based on the 1-year Treasury index. Principal and interest payments are only required when lots are sold in the Industrial Park.

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

- 1) Nelson County Public Improvements Corporation (Continued)
 - b) The Nelson County Public Improvements Corporation has entered into the following lease agreements:
 - i) 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.
 - ii) 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, 2010, the interest rate was 5.63%. Interest is payable monthly and principal is paid annually.
 - iii) 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.
- 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.

Nelson County
Notes To Basic Financial Statements
June 30, 2010
(Continued)

NOTE 7—LONG-TERM DEBT (Continued)

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, 2010, 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>
6/30/2011	\$ 595,000	\$ 429,888	\$ 29,450	\$ 8,177
6/30/2012	620,000	405,194	15,170	7,126
6/30/2013	645,000	379,465	15,561	6,403
6/30/2014	3,532,657	1,011,342	15,968	5,664
6/30/2015	705,000	323,866	16,390	4,906
2016 - 2020	3,590,000	1,126,871	80,773	12,456
2021-2025	2,420,000	245,000	10,000	528
Totals	<u>\$12,107,657</u>	<u>\$ 3,921,626</u>	<u>\$183,312</u>	<u>\$45,261</u>

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, 2010.

<u>FUND</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 536,000	\$ (1,020,522)
Road	620,000	
Jail	920,522	
OLF		(905,000)
EMS	335,000	
Solid Waste		(100,000)
Landfill	560,000	(901,000)
PIC	415,000	(460,000)
Totals	<u>\$ 3,386,522</u>	<u>\$ (3,386,522)</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. Transfers to the PIC fund are allocated to costs incurred at the Industrial Park until land is sold to cover these costs.

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. The statutes were revised in FY 2009 for employees who enter the retirement system beginning September 1, 2008, increasing the employee contribution 1% to cover health care expenses. 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, 2010, were as follows:

	<u>Employees prior to September 1, 2008</u>	<u>Employees after September 1, 2008</u>	<u>Employer</u>
Nonhazardous	5%	6%	16.16%
Hazardous-duty	8%	9%	32.97%

The County contributed \$766,635 for nonhazardous employees and \$347,085 for hazardous-duty employees for the fiscal year ended June 30, 2010.

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, 2010, County engineers estimate that \$6,528,230 will be required for landfill closure cost and for postclosure care liability. Approximately 46% of the landfill airspace capacity had been used as of June 30, 2010. \$3,011,618 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

Beginning net assets for the Business-type activities of the PIC Fund was decreased by \$230,682. The decrease is due to land held for resale that was sold and not removed from the land held for resale account balance.

THIS PAGE LEFT BLANK INTENTIONALLY

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

June 30, 2010

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

June 30, 2010

	<u>LGEA</u>	<u>Haz Mat 5 Operating</u>	<u>Federal & State Grants</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 131,960	\$	\$	\$ 131,960
Total assets	<u>\$ 131,960</u>	<u>\$</u>	<u>\$</u>	<u>\$ 131,960</u>
FUND BALANCES				
Reserved for:				
Infrastructure	\$ 131,960	\$	\$	\$ 131,960
Total fund balances	<u>\$ 131,960</u>	<u>\$</u>	<u>\$</u>	<u>\$ 131,960</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2010

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, 2010

	<u>LGEA</u>	<u>Haz Mat 5 Operating</u>	<u>Federal & State Grants</u>	<u>Total Governmental Funds</u>
REVENUES:				
Intergovernmental revenues	\$ 181,069	\$	\$	\$ 181,069
Interest	2,344			2,344
Other				
Total revenues	<u>183,413</u>			<u>183,413</u>
EXPENDITURES:				
Current operating:				
Public Protection		2,524	660	3,184
Road Maintenance	<u>128,729</u>			<u>128,729</u>
Total expenditures	<u>128,729</u>	<u>2,524</u>	<u>660</u>	<u>131,913</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	<u>54,684</u>	<u>(2,524)</u>	<u>(660)</u>	<u>51,500</u>
Fund balances--beginning	<u>77,276</u>	<u>2,524</u>	<u>660</u>	<u>80,460</u>
Fund balances--ending	<u>\$ 131,960</u>	<u>\$</u>	<u>\$</u>	<u>\$ 131,960</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

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

For The Year Ended June 30, 2010

NELSON COUNTY
BUDGETARY COMPARISON SCHEDULE – OTHER FUNDS
LGEA FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Intergovernmental Revenue	\$ 168,700	\$ 168,700	\$ 181,069	\$ 12,369
Interest	1,500	1,500	2,344	844
Total Revenues	<u>170,200</u>	<u>170,200</u>	<u>183,413</u>	<u>13,213</u>
Expenditures				
Road Maintenance	165,000	165,000	128,729	36,271
Contingencies	41,721	41,721	41,721	41,721
Total Expenditures	<u>206,721</u>	<u>206,721</u>	<u>128,729</u>	<u>77,992</u>
Net Changes in Fund Balance	(36,521)	(36,521)	54,684	91,205
Fund Balance, July 1, 2009	<u>36,521</u>	<u>36,521</u>	<u>77,276</u>	<u>40,755</u>
Fund Balance, June 30, 2010	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$ 131,960</u></u>	<u><u>\$ 131,960</u></u>

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

NELSON COUNTY
BUDGETARY COMPARISON SCHEDULE – OTHER FUNDS
HAZMAT REGION 5 FUND
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Intergovernmental Revenues	\$ 16,000	\$ 16,000	\$	\$ (16,000)
Total Revenues	16,000	16,000		(16,000)
Expenditures				
Public Protection	16,025	16,025	2,524	13,501
Total Expenditures	16,025	16,025	2,524	13,501
Net Changes in Fund Balances	(25)	(25)	(2,524)	(2,499)
Fund Balance, July 1, 2009	<u>25</u>	<u>25</u>	<u>2,524</u>	<u>2,499</u>
Fund Balance, June 30, 2010	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

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

NELSON COUNTY
BUDGETARY COMPARISON SCHEDULE – OTHER FUNDS
EMS FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Intergovernmental Revenues	\$ 10,200	\$ 70,800	\$ 72,752	\$ 1,952
Charges for Services	1,602,600	1,602,600	1,633,614	31,014
Other		2,900	6,452	3,552
Interest	700	700	2,063	1,363
Total Revenues	<u>1,613,500</u>	<u>1,677,000</u>	<u>1,714,881</u>	<u>37,881</u>
Expenditures				
Public Protection	1,895,900	1,897,400	1,866,447	30,953
Capital Projects	57,000	114,000	107,863	6,137
Contingencies	10,839	15,839		15,839
Total Expenditures	<u>1,963,739</u>	<u>2,027,239</u>	<u>1,974,310</u>	<u>52,929</u>
Excess (deficiency) of revenues over expenditures before other financing sources and uses	(350,239)	(350,239)	(259,429)	90,810
Other Financing Sources:				
Transfers In	<u>335,000</u>	<u>335,000</u>	<u>335,000</u>	
Total Other Financing Sources	<u>335,000</u>	<u>335,000</u>	<u>335,000</u>	
Net Changes in Fund Balances	(15,239)	(15,239)	75,571	90,810
Fund Balance, July 1, 2009	<u>15,239</u>	<u>15,239</u>	<u>3,965</u>	<u>(11,274)</u>
Fund Balance, June 30, 2010	<u>\$</u>	<u>\$</u>	<u>\$ 79,536</u>	<u>\$ 79,536</u>

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

NELSON COUNTY
BUDGETARY COMPARISON SCHEDULE – OTHER FUNDS
SOLID WASTE FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Intergovernmental revenues	\$ 57,500	\$ 57,500	\$ 58,492	\$ 992
Charges for Services	1,686,500	1,736,500	1,758,175	21,675
Other	8,500	46,100	37,625	(8,475)
Interest	200	200	345	145
Total Revenues	1,752,700	1,840,300	1,854,637	14,337
Expenditures				
General Health & Sanitation	1,697,150	1,712,750	1,634,023	78,727
Capital Projects		72,000	69,655	2,345
Contingencies	13,950	13,950		13,950
Total Expenditures	1,711,100	1,798,700	1,703,678	95,022
Excess of revenues over expenditures before other financing sources and uses	41,600	41,600	150,959	109,359
Other Financing Sources (Uses):				
Transfers out	(100,000)	(100,000)	(100,000)	
Total Other Financing Sources (Uses)	(100,000)	(100,000)	(100,000)	
Net Changes in Fund Balances	(58,400)	(58,400)	50,959	109,359
Fund Balance, July 1, 2009	58,400	58,400	107,096	48,696
Fund Balance, June 30, 2010	<u>\$</u>	<u>\$</u>	<u>\$ 158,055</u>	<u>\$ 158,055</u>

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

NELSON COUNTY
BUDGETARY COMPARISON SCHEDULE – OTHER FUNDS
LANDFILL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Intergovernmental revenues	\$	\$	\$ 46,725	\$ 46,725
Charges for Services	2,102,600	2,102,600	2,007,172	(95,428)
Other	500	500	295,570	295,070
Interest	100,000	100,000	80,459	(19,541)
Total Revenues	2,203,100	2,203,100	2,429,926	226,826
Expenditures				
General Health & Sanitation	1,421,900	1,448,900	1,410,452	38,448
Capital Projects	350,000	350,000	256,954	93,046
Closure reserves	953,285	926,285	521,808	404,477
Total Expenditures	2,725,185	2,725,185	2,189,214	535,971
Excess (deficiency) of revenues over expenditures before other financing sources and uses	(522,085)	(522,085)	240,712	762,797
Other Financing Sources (Uses):				
Transfers In	100,000	100,000	560,000	460,000
Transfers Out	(200,000)	(200,000)	(901,000)	(701,000)
Total Other Financing Sources (Uses)	(100,000)	(100,000)	(341,000)	(241,000)
Net Changes in Fund Balances	(622,085)	(622,085)	(100,288)	521,797
Fund Balance, July 1, 2009	622,085	622,085	902,075	279,990
Fund Balance, June 30, 2010	\$	\$	\$ 801,787	\$ 801,787

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

NELSON COUNTY
BUDGETARY COMPARISON SCHEDULE – OTHER FUNDS
PIC FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Charges for Services	\$ 992,000	\$ 992,000	\$ 1,002,540	\$ 10,540
Other	54,000	54,000	9,500	(44,500)
Total Revenues	1,046,000	1,046,000	1,012,040	(33,960)
Expenditures				
General Government	33,900	33,900	27,803	6,097
Principal	498,390	498,390	498,173	217
Interest	429,710	429,710	428,077	1,633
Capital Projects	50,000	50,000	10,480	39,520
Contingencies	40,350	40,350		40,350
Total Expenditures	1,052,350	1,052,350	964,533	87,817
Excess (deficiency) of revenues over expenditures before other financing sources and uses	(6,350)	(6,350)	47,507	53,857
Other Financing Sources (Uses):				
Transfers in			415,000	415,000
Transfers out			(460,000)	(460,000)
Total Other Financing Sources (Uses)			(45,000)	(45,000)
Net Changes in Fund Balances	(6,350)		2,507	8,857
Fund Balance, July 1, 2009	6,350	6,350	766	(5,584)
Fund Balance, June 30, 2010	\$	\$	\$ 3,273	\$ 3,273

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

**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**



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, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 20, 2010. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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)

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Mountjoy Chilton Medley LLP".

Mountjoy Chilton Medley, LLP

December 20, 2010

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

NELSON COUNTY FISCAL COURT

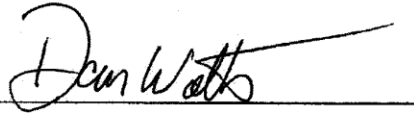
**For The Fiscal Year Ended
June 30, 2010**

Appendix A

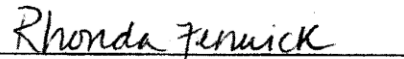
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
NELSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

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



County Judge/Executive



County Treasurer

