

**NELSON COUNTY SCHOOL DISTRICT**

BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION, AND  
REPORTS OF INDEPENDENT AUDITORS

YEAR ENDED JUNE 30, 2018

# NELSON COUNTY SCHOOL DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits and  
Members of the Board of Education  
Nelson County School District  
Bardstown, Kentucky

### Report on the Financial Statements

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 the Nelson County School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor, considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

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 the Nelson County School District, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, during the year ended June 30, 2018, the District adopted Governmental Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement 85, *Omnibus 2017*, and Statement 86, *Certain Debt Extinguishment Issues*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension schedules and OPEB schedules on pages 4 – 9 and 56 – 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and school activity funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, school activity funds, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, school activity funds, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated November 7, 2018, on our consideration of Nelson County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Nelson County School District's internal control over financial reporting and compliance.

*Stiles, Carter & Associates, CPAs, P.S.C.*

Stiles, Carter & Associates, CPAs, P.S.C.  
Bardstown, Kentucky  
November 7, 2018

**NELSON COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**FOR THE YEAR ENDED JUNE 30, 2018**

As management of the Nelson County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. The reporting model is a combination of both government-wide financial statements and fund financial statements.

**FINANCIAL HIGHLIGHTS**

- The ending cash and cash equivalents balance for the District for the year ended June 30, 2018 (FY18) was \$2.52 million, including a construction fund cash balance of \$1.8 million, and a building fund cash balance of \$233 thousand.
- The District's property tax base is derived from residential growth and assessments. Property assessment values grew by almost 6%. The District levied FY18 property tax rates of 76.4 cents per \$100 for real estate and tangible property. This rate reflects an increase of 1.3 cents above the FY17 rate of 75.1 cents. The motor vehicle rate of 54.80 cents per \$100 of assessed value and the 3% utility tax rate remained unchanged from FY17.
- The District ended FY18 with a balance in the general fund of approximately \$3.4 million, reflecting a 9% decrease from the previous year.
- Bonds are issued as the District constructs and/or renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with the Kentucky Department of Education's stringent compliance regulations. The District's bond debt was reduced \$1.91 million in FY18.
- The District's major construction projects for FY18 included the following projects that were in process at the end of the previous year: (1) Nelson Co. Early Childhood Center expansion, (2) Thomas Nelson High School Phase 3, and (3) Bloomfield Middle School Energy Improvement project. All three projects were substantially completed during fiscal 2018.
- Employees received a 1.0% pay increase in addition to normal step and rank increases.
- During FY18, the District adopted the provisions of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This required a restatement and reduction to beginning net position of \$14.6 million. At the end of FY18, the District reported a net post employment benefit obligation (OPEB) of \$11.7 million related to the Teacher's Retirement System OPEB and \$4.4 million related to the County Employees Retirement System.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The government-wide financial statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These statements present summaries of Governmental and Business-Type Activities for the District accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets as well as long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability incurred. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

**NELSON COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**FOR THE YEAR ENDED JUNE 30, 2018**

The government-wide financial statements can be found on pages 10 through 11 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are food service and child care operations. All other activities of the district are included in the governmental funds. The basic governmental fund financial statements can be found on pages 12 through 19 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$12.7 million as of June 30, 2018.

Typically, the largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**NELSON COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**Net Position**

The 2018 Government-wide net position compared to 2017 is as follows:

**Net Position**  
**(Table 1)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	(Restated) 2017	2018	(Restated) 2017	2018	(Restated) 2017
Current and other assets	\$ 6,776,179	\$ 10,629,897	\$ 1,037,656	\$ 989,013	\$ 7,813,835	\$ 11,618,910
Capital assets	93,674,339	95,016,394	426,583	520,387	94,100,922	95,536,781
Total assets	100,450,518	105,646,291	1,464,239	1,509,400	101,914,757	107,155,691
Deferred outflows of resources	7,225,718	4,828,042	1,308,096	621,006	8,533,814	5,449,048
Long-term debt	86,187,550	87,684,324	4,085,360	3,352,247	90,272,910	91,036,571
Other liabilities	5,710,979	7,313,362	62	62	5,711,041	7,313,424
Total liabilities	91,898,529	94,997,686	4,085,422	3,352,309	95,983,951	98,349,995
Deferred inflows of resources	1,432,361	192,262	361,701	51,857	1,794,062	244,119
Net position:						
Net investment in capital assets	32,409,808	29,800,520	426,583	520,387	32,836,391	30,320,907
Restricted	2,261,101	4,082,068	-	-	2,261,101	4,082,068
Unrestricted	(20,325,563)	(18,598,203)	(2,101,371)	(1,794,147)	(22,426,934)	(20,392,350)
Total net position	\$ 14,345,346	\$ 15,284,385	\$ (1,674,788)	\$ (1,273,760)	\$ 12,670,558	\$ 14,010,625

The following are significant current year transactions impacting the Statement of Net Position:

- Capital assets decreased approximately \$1.34 million due to current year depreciation of \$3.96 million offset by FY2018 additions of approximately \$2.62 million primarily as a result of construction costs related to the completion of the following: (1) Nelson Co. Early Childhood Center expansion, (2) Thomas Nelson High School Phase 3, and (3) Bloomfield Middle School Energy Improvement project.
- Total long-term obligations for bonds decreased approximately \$4.1 million as a result of regularly schedules principal payments. The District's proportionate share of CERS reported net pension liability increased approximately \$2.48 million during fiscal year 2018. As of June 30, 2018, the District's proportionate share of the CERS net pension liability was \$14.38 million (as actuarially determined by CERS). The District's proportionate share of CERS reported net OPEB liability increased approximately \$1.07 million during fiscal year 2018. As of June 30, 2018, the District's proportionate share of the CERS net OPEB liability was \$4.94 million (as actuarially determined by CERS). The District's proportionate share of TRS reported net OPEB liability decreased approximately \$116 thousand during fiscal year 2018. As of June 30, 2018, the District's proportionate share of the TRS net OPEB liability was \$11.73 million (as actuarially determined by TRS).

**NELSON COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**Change in Net Position**

The following Table 2 presents the summary of changes in net position for the fiscal years ending June 30, 2018 and 2017.

**Changes in Net Position**  
**(Table 2)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
<b>REVENUES</b>						
<b>Program Revenues</b>						
Charges for services	\$ 185,932	\$ 226,885	\$ 1,478,350	\$ 1,397,571	\$ 1,664,282	\$ 1,624,456
Operating grants and contributions	21,314,662	23,202,832	2,040,391	2,321,215	23,355,053	25,524,047
Capital grants and contributions	1,888,010	2,147,556	-	-	1,888,010	2,147,556
<b>General Revenues</b>						
Property taxes	14,626,867	13,674,673	-	-	14,626,867	13,674,673
Motor vehicle taxes	1,566,815	1,491,829	-	-	1,566,815	1,491,829
Utility taxes	1,725,834	1,647,759	-	-	1,725,834	1,647,759
Distilled spirits tax	2,623,902	2,290,443	-	-	2,623,902	2,290,443
Investment earnings	56,673	26,142	-	-	56,673	26,142
State aid formula grants	14,434,482	15,341,298	-	-	14,434,482	15,341,298
Gain (loss) on sale of equipment	136,709	462,788	-	-	136,709	462,788
Miscellaneous	282,812	168,278	-	-	282,812	168,278
<b>Total revenues</b>	<b>58,842,698</b>	<b>60,680,483</b>	<b>3,518,741</b>	<b>3,718,786</b>	<b>62,361,439</b>	<b>64,399,269</b>
<b>EXPENSES</b>						
<b>Program Activities</b>						
Instruction	36,193,834	38,391,133	-	-	36,193,834	38,391,133
Student support	2,389,047	1,940,161	-	-	2,389,047	1,940,161
Instruction staff support	2,260,891	1,986,551	-	-	2,260,891	1,986,551
District administration support	1,700,984	1,322,246	-	-	1,700,984	1,322,246
School administrative support	3,498,852	2,926,104	-	-	3,498,852	2,926,104
Business support	2,276,592	2,055,329	-	-	2,276,592	2,055,329
Plant operation and maintenance	5,598,813	4,457,425	-	-	5,598,813	4,457,425
Student transportation	3,696,360	3,453,711	-	-	3,696,360	3,453,711
Community service activities	322,124	317,867	-	-	322,124	317,867
Facilities acquisition and construct	-	39,419	-	-	-	39,419
Interest on long-term debt	1,984,240	1,997,774	-	-	1,984,240	1,997,774
<b>Business-type Activities</b>						
Food service	-	-	2,801,406	2,741,979	2,801,406	2,741,979
Child care	-	-	978,363	864,563	978,363	864,563
<b>Total expenses</b>	<b>59,921,737</b>	<b>58,887,720</b>	<b>3,779,769</b>	<b>3,606,542</b>	<b>63,701,506</b>	<b>62,494,262</b>
<b>Transfers</b>	<b>140,000</b>	<b>-</b>	<b>(140,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ (939,039)</b>	<b>\$ 1,792,763</b>	<b>\$ (401,028)</b>	<b>\$ 112,244</b>	<b>\$ (1,340,067)</b>	<b>\$ 1,905,007</b>

The following are significant current year transactions impacting the Changes in Net Position:

- Total revenues decreased approximately \$2.0 million primarily due to decreases in on-behalf revenues of \$2.2 million related to the decrease in the TRS net pension liability and decreases in state aid formula grants of \$907 thousand offset by additional increases in property tax revenues, motor vehicle tax revenues, distilled spirits tax, and utility tax revenues of approximately \$1.44 million.
- Total expenses increased approximately \$1.2 million as a result of increases in Plant Operations and Maintenance (\$1.1 million increase); increases in student transportation (\$243 thousand increase); increases in Student staff support (\$449 thousand increase); increases in Instruction staff support (\$274 thousand increase); increases in district administrative support (\$379 thousand increase); increases in school administrative support (\$572 thousand increase); and increases in Food Service and Child Care of approximately \$212 thousand. The increases are primarily the result of increases in the CERS net pension liability of \$2.48 million offset by a decrease of approximately \$2.0 million primarily due to decreases in on-behalf revenues of \$2.2 million related to the decrease in the TRS net pension liability reported in Instruction.

**NELSON COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**Capital Assets**

At the end of fiscal year 2018, the School District had approximately \$94.1 million invested in land, building and improvements, vehicles, equipment, and construction in process. Table 3 shows fiscal year 2018 and 2017 balances.

**Capital Assets, Net of Depreciation**  
**(Table 3)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land	\$ 2,921,133	\$ 2,921,133	\$ -	\$ -	\$ 2,921,133	\$ 2,921,133
Land improvements	133,703	108,860			133,703	108,860
Buildings and improvements	87,226,661	80,125,292	-	-	87,226,661	80,125,292
Technology Equipment	582,385	704,120	236	1,243	582,621	705,363
Vehicles	1,997,073	2,417,170	-	-	1,997,073	2,417,170
General equipment	813,384	855,401	426,347	519,144	1,239,731	1,374,545
Total	93,674,339	87,131,976	426,583	520,387	94,100,922	87,652,363
Construction in process	-	7,884,418	-	-	-	7,884,418
Total	\$ 93,674,339	\$ 95,016,394	\$ 426,583	\$ 520,387	\$ 94,100,922	\$ 95,536,781

The following were major additions and capital assets placed in service during fiscal year 2018:

Nelson Co. Early Learning Center	\$ 2,912,046
Thomas Nelson High School – Phase 3	\$ 3,201,184
Bloomfield Middle School – Energy Improvements	\$ 3,409,445
OKH Middle School Roof	\$ 485,000

**Debt**

At June 30, 2018, the School District had \$63,305,000 in bonds outstanding. Of this amount, \$6,320,322 is to be paid by the Kentucky School Facility Construction Commission. A total of \$4,190,000 is due within one year.

**General Fund – Budget Highlights**

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

Budgeted expenditures of approximately \$40.8 million compare with actual expenditures of approximately \$42.7 million. The most significant fluctuation is in the other category for \$2.2 million budget for contingency that was not needed. Additional significant variances from budgeted amounts include: (1) state on-behalf expenditures being over budget by \$3.6 million; (2) Instruction staff expenditures were over budget by \$228 thousand; (3) District administrative expenditures were over budget by \$273 thousand; (4) school administrative expenditures were over budget by \$254 thousand; and (5) plant operation and maintenance expenditures were over by \$610 thousand.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 20 – 55 of this report.

**NELSON COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**BUDGETARY IMPLICATIONS**

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal, operate on a different fiscal year, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget for 2017-2018 with a contingency that exceeded the 2% minimum. The District has adopted a budget for 2018-2019 with a contingency that exceeds the 2% requirement.

**ADDITIONAL CONTACT INFORMATION**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions regarding this report or requests for additional information should be directed to Amy Owens Finance Officer, 288 Wildcat Lane, Bardstown, Kentucky 40004 or call 502-331-4310.

# NELSON COUNTY SCHOOL DISTRICT

## STATEMENT OF NET POSITION

JUNE 30, 2018

Assets	Governmental Activities	Business- Type Activities	Total
<b><u>Current Assets</u></b>			
Cash and cash equivalents	\$ 2,523,305	\$ 972,085	\$ 3,495,390
Investments	3,154,148	-	3,154,148
Inventory	-	45,102	45,102
Receivables:			
Taxes-current	314,884	-	314,884
Taxes-delinquent	13,711	-	13,711
Other receivables	53,335	-	53,335
Intergovernmental-Indirect Federal	697,375	20,469	717,844
Intergovernmental-direct Federal	19,421	-	19,421
<b>Total Current Assets</b>	<b>6,776,179</b>	<b>1,037,656</b>	<b>7,813,835</b>
<b><u>Noncurrent Assets</u></b>			
Non-depreciable capital assets	2,921,133	-	2,921,133
Depreciable capital assets, net of accumulated depreciation	90,753,206	426,583	91,179,789
<b>Total Noncurrent Assets</b>	<b>93,674,339</b>	<b>426,583</b>	<b>94,100,922</b>
<b>Total Assets</b>	<b>\$ 100,450,518</b>	<b>\$ 1,464,239</b>	<b>\$ 101,914,757</b>
<b><u>Deferred Outflows of Resources</u></b>			
Deferred amount on debt refundings	\$ 1,732,958	\$ -	\$ 1,732,958
CERS - Pension	3,805,181	1,020,073	4,825,254
CERS - OPEB	1,074,412	288,023	1,362,435
TRS - OPEB	613,167	-	613,167
<b>Total Deferred Outflows of Resources</b>	<b>\$ 7,225,718</b>	<b>\$ 1,308,096</b>	<b>\$ 8,533,814</b>
<b><u>Liabilities</u></b>			
<b><u>Current Liabilities</u></b>			
Accounts payable	\$ 156,626	\$ 62	\$ 156,688
Accrued liabilities	143,290	-	143,290
Advances from grantors	783,755	-	783,755
Bond obligations	4,190,000	-	4,190,000
Capital leases payable	96,335	-	96,335
Compensated absences	90,114	-	90,114
Interest payable	250,859	-	250,859
<b>Total Current Liabilities</b>	<b>5,710,979</b>	<b>62</b>	<b>5,711,041</b>
<b><u>Noncurrent Liabilities</u></b>			
Bond obligations	58,677,828	-	58,677,828
Capital leases payable	33,326	-	33,326
Compensated absences	510,644	-	510,644
Net pension liability - CERS	11,343,625	3,040,937	14,384,562
Net OPEB liability - CERS	3,896,014	1,044,423	4,940,437
Net OPEB liability - TRS	11,726,113	-	11,726,113
<b>Total Noncurrent Liabilities</b>	<b>86,187,550</b>	<b>4,085,360</b>	<b>90,272,910</b>
<b>Total Liabilities</b>	<b>\$ 91,898,529</b>	<b>\$ 4,085,422</b>	<b>\$ 95,983,951</b>
<b><u>Deferred Inflows of Resources</u></b>			
CERS - Pension	\$ 1,145,268	\$ 307,018	\$ 1,452,286
CERS - OPEB	203,984	54,683	258,667
TRS - OPEB	83,109	-	83,109
<b>Total Deferred Inflows of Resources</b>	<b>\$ 1,432,361</b>	<b>\$ 361,701</b>	<b>\$ 1,794,062</b>
<b><u>Net Position</u></b>			
Net investment in capital assets	\$ 32,409,808	\$ 426,583	\$ 32,836,391
Restricted	2,261,101	-	2,261,101
Unrestricted	(20,325,563)	(2,101,371)	(22,426,934)
<b>Total Net Position</b>	<b>\$ 14,345,346</b>	<b>\$ (1,674,788)</b>	<b>\$ 12,670,558</b>

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

# NELSON COUNTY SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
<b>FUNCTIONS/PROGRAMS</b>							
<b>Governmental Activities:</b>							
Instruction	\$ 36,193,834	\$ 82,363	\$ 19,441,406	\$ -	\$ (16,670,065)	\$ -	\$ (16,670,065)
Support services:							
Student	2,389,047	-	357,838	-	(2,031,209)	-	(2,031,209)
Instruction staff	2,260,891	-	380,570	-	(1,880,321)	-	(1,880,321)
District administrative	1,700,984	-	231,883	-	(1,469,101)	-	(1,469,101)
School administrative	3,498,852	-	506,910	-	(2,991,942)	-	(2,991,942)
Business	2,276,592	-	161,434	-	(2,115,158)	-	(2,115,158)
Plant operation and maintenance	5,598,813	-	82,021	-	(5,516,792)	-	(5,516,792)
Student transportation	3,696,360	90,819	152,600	-	(3,452,941)	-	(3,452,941)
Community service activities	322,124	-	-	-	(322,124)	-	(322,124)
Other	-	12,750	-	-	12,750	-	12,750
Facilities acquisition and construction	-	-	-	1,050,977	1,050,977	-	1,050,977
Interest on long-term debt	1,984,240	-	-	837,033	(1,147,207)	-	(1,147,207)
<b>Total Governmental Activities</b>	<b>59,921,737</b>	<b>185,932</b>	<b>21,314,662</b>	<b>1,888,010</b>	<b>(36,533,133)</b>	<b>-</b>	<b>(36,533,133)</b>
<b>Business-Type Activities:</b>							
Food service	2,801,406	635,222	1,953,581	-	-	(212,603)	(212,603)
Childcarecare	978,363	843,128	86,810	-	-	(48,425)	(48,425)
<b>Total Business-Type Activities</b>	<b>3,779,769</b>	<b>1,478,350</b>	<b>2,040,391</b>	<b>-</b>	<b>-</b>	<b>(261,028)</b>	<b>(261,028)</b>
<b>Total Primary Government</b>	<b>\$ 63,701,506</b>	<b>\$ 1,664,282</b>	<b>\$ 23,355,053</b>	<b>\$ 1,888,010</b>	<b>(36,533,133)</b>	<b>(261,028)</b>	<b>(36,794,161)</b>
<b>General Revenues:</b>							
Taxes:							
Property taxes					14,626,867	-	14,626,867
Motor vehicle taxes					1,566,815	-	1,566,815
Utility taxes					1,725,834	-	1,725,834
Other taxes					2,623,902	-	2,623,902
Investment earnings					56,673	-	56,673
Gain on disposal of capital assets					136,709	-	136,709
State and formula grants					14,434,482	-	14,434,482
Miscellaneous					282,812	-	282,812
<b>Total general revenues</b>					<b>35,454,094</b>	<b>-</b>	<b>35,454,094</b>
Transfers					140,000	(140,000)	-
Change in net position					(939,039)	(401,028)	(1,340,067)
Net position - beginning					29,141,948	(510,912)	28,631,036
Prior period adjustments (see Note)					(13,857,563)	(762,848)	(14,620,411)
Net position - beginning, as restated					15,284,385	(1,273,760)	14,010,625
Net position - ending					\$ 14,345,346	\$ (1,674,788)	\$ 12,670,558

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

# NELSON COUNTY SCHOOL DISTRICT

## BALANCE SHEET

### GOVERNMENTAL FUNDS

JUNE 30, 2018

	General Fund	Special Revenue	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>						
Cash and cash equivalents	\$ 195,245	\$ 250,850	1,844,006	\$ -	\$ 233,204	\$ 2,523,305
Investments	3,154,148	-	-	-	-	3,154,148
Receivables:						
Taxes - current	314,884	-	-	-	-	314,884
Taxes - delinquent	13,711	-	-	-	-	13,711
Other receivables	53,335	-	-	-	-	53,335
Intergovernmental - Indirect Federal	-	697,375	-	-	-	697,375
Intergovernmental - Direct Federal	-	19,421	-	-	-	19,421
<b>Total Assets</b>	<u>\$ 3,731,323</u>	<u>\$ 967,646</u>	<u>\$ 1,844,006</u>	<u>\$ -</u>	<u>\$ 233,204</u>	<u>\$ 6,776,179</u>
<b>Liabilities and Fund Balances:</b>						
<b>Liabilities</b>						
Accounts payable	\$ 156,626	\$ -	\$ -	\$ -	\$ -	\$ 156,626
Accrued liabilities	143,290	-	-	-	-	143,290
Advances from grantors	-	783,755	-	-	-	783,755
<b>Total Liabilities</b>	<u>299,916</u>	<u>783,755</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,083,671</u>
<b>Fund Balances</b>						
Restricted	-	183,891	1,844,006	-	233,204	2,261,101
Committed	1,270,756	-	-	-	-	1,270,756
Unassigned	2,160,651	-	-	-	-	2,160,651
<b>Total Fund Balances</b>	<u>3,431,407</u>	<u>183,891</u>	<u>1,844,006</u>	<u>-</u>	<u>233,204</u>	<u>5,692,508</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 3,731,323</u>	<u>\$ 967,646</u>	<u>\$ 1,844,006</u>	<u>\$ -</u>	<u>\$ 233,204</u>	<u>\$ 6,776,179</u>

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

## NELSON COUNTY SCHOOL DISTRICT

### RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

JUNE 30, 2018

Total fund balance per fund financial statements	\$ 5,692,508
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	93,674,339
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Governmental funds record debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are reported on the statement of net position as deferred outflows of resources.	1,732,958
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Governmental funds do not record deferred outflows of resources for pensions and OPEB but those are reported on the statement of net position as deferred outflows of resources.	5,492,760
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Governmental funds do not record deferred inflows of resources for pensions and OPEB but those are reported on the statement of net position as deferred inflows of resources.	(1,432,361)
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Certain liabilities are not reported in this fund financial statement because because they are not due and payable, but they are presented in the statement of net position:

Bonds payable (net of discounts/premiums)	(62,867,828)
Capital lease payable	(129,661)
Interest payable	(250,859)
Compensated absences	(600,758)
Net pension liability - CERS	(11,343,625)
Net OPEB liability - CERS	(3,896,014)
Net OPEB liability - TRS	<u>(11,726,113)</u>

Net position for governmental activities	<u>\$ 14,345,346</u>
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The notes to financial statements are an integral part of the statements.

# NELSON COUNTY SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

### GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Special Revenue	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
From local sources:						
Taxes:						
Property	\$ 10,742,559	\$ -	\$ -	\$ -	\$ 3,840,000	\$ 14,582,559
Motor vehicle	1,566,815	-	-	-	-	1,566,815
Utilities	1,725,834	-	-	-	-	1,725,834
Distilled spirits	2,623,902	-	-	-	-	2,623,902
Earnings on investments	56,673	-	-	-	-	56,673
Other local revenues	203,090	290,836	-	-	-	493,926
Intergovernmental - State	25,366,811	2,059,087	-	837,033	1,050,977	29,313,908
Intergovernmental - Indirect Federal	-	1,865,780	-	-	-	1,865,780
Intergovernmental - Direct Federal	-	285,968	-	-	-	285,968
<b>Total Revenues</b>	<u>42,285,684</u>	<u>4,501,671</u>	<u>-</u>	<u>837,033</u>	<u>4,890,977</u>	<u>52,515,365</u>
<b>Expenditures:</b>						
Instruction	24,516,833	2,756,878	-	-	-	27,273,711
Support services:						
Student	1,994,481	376,355	-	-	-	2,370,836
Instruction staff	2,084,820	220,517	-	-	-	2,305,337
District administrative	1,528,580	-	-	-	-	1,528,580
School administrative	3,319,989	-	-	-	-	3,319,989
Business	1,688,044	429,208	-	-	-	2,117,252
Plant operation and maintenance	4,875,439	24,454	-	-	-	4,899,893
Student transportation	2,403,565	495,199	-	-	-	2,898,764
Facilities acquisition and construction	-	-	2,123,257	-	-	2,123,257
Community service activities	-	319,042	-	-	-	319,042
Debt service:						
Principal	269,858	-	-	3,850,142	-	4,120,000
Interest	45,959	-	-	1,675,002	-	1,720,961
<b>Total Expenditures</b>	<u>42,727,568</u>	<u>4,621,653</u>	<u>2,123,257</u>	<u>5,525,144</u>	<u>-</u>	<u>54,997,622</u>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<u>(441,884)</u>	<u>(119,982)</u>	<u>(2,123,257)</u>	<u>(4,688,111)</u>	<u>4,890,977</u>	<u>(2,482,257)</u>
<b>Other Financing Sources (Uses):</b>						
Proceeds from disposal of capital assets	52,071	-	-	-	-	52,071
Insurance proceeds	-	-	84,901	-	-	84,901
Transfers in	140,000	104,167	-	4,657,773	-	4,901,940
Transfers out	(104,167)	-	-	-	(4,657,773)	(4,761,940)
<b>Total Other Financing Sources (Uses)</b>	<u>87,904</u>	<u>104,167</u>	<u>84,901</u>	<u>4,657,773</u>	<u>(4,657,773)</u>	<u>276,972</u>
<b>Net Change in Fund Balances</b>	<u>(353,980)</u>	<u>(15,815)</u>	<u>(2,038,356)</u>	<u>(30,338)</u>	<u>233,204</u>	<u>(2,205,285)</u>
<b>Fund Balance, July 1, 2017</b>	<u>3,785,387</u>	<u>199,706</u>	<u>3,882,362</u>	<u>30,338</u>	<u>-</u>	<u>7,897,793</u>
<b>Fund Balance, June 30, 2018</b>	<u>\$ 3,431,407</u>	<u>\$ 183,891</u>	<u>\$ 1,844,006</u>	<u>\$ -</u>	<u>\$ 233,204</u>	<u>\$ 5,692,508</u>

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

## NELSON COUNTY SCHOOL DISTRICT

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

Net change in total fund balances per fund financial statements		\$ (2,205,285)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed depreciation expense for the year.		
Capital expenditures	\$ 2,615,204	
Depreciation	<u>(3,956,997)</u>	(1,341,793)
Debt service payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position. The difference is the amount of principal payment during the year for:		
Principal payments on bonds	4,120,000	
Principal payments on capital leases	<u>91,100</u>	4,211,100
In the statement of activities, only the gain (loss) on sale of capital assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.		(262)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
Compensated absences - long-term	218,043	
Changes in interest payable, discounts, and deferred amounts on refunding	(263,278)	
Pension and OPEB expenses related to changes in the net pension liability, the net OPEB liability, and net changes in deferred outflows and inflows for CERS and TRS pensions and OPEB	<u>(1,557,564)</u>	<u>(1,602,799)</u>
Change in net position of governmental activities		<u>\$ (939,039)</u>

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

# NELSON COUNTY SCHOOL DISTRICT

## STATEMENT OF NET POSITION

### PROPRIETARY FUNDS

JUNE 30, 2018

	Food Service Fund	Childcare Fund	Total Enterprise Funds
<b>Assets</b>			
<b><u>Current Assets</u></b>			
Cash and cash equivalents	\$ 522,299	\$ 449,786	\$ 972,085
Intergovernmental - Indirect Federal	20,469	-	20,469
Inventory	45,102	-	45,102
<b>Total Current Assets</b>	<u>587,870</u>	<u>449,786</u>	<u>1,037,656</u>
<b><u>Noncurrent Assets</u></b>			
Capital assets, net of accumulated depreciation	426,583	-	426,583
<b>Total Noncurrent Assets</b>	<u>426,583</u>	<u>-</u>	<u>426,583</u>
<b>Total Assets</b>	<u>\$ 1,014,453</u>	<u>\$ 449,786</u>	<u>\$ 1,464,239</u>
<b>Deferred Outflows of Resources</b>			
CERS - Pension	\$ 681,674	\$ 338,399	\$ 1,020,073
CERS - OPEB	192,474	95,549	288,023
<b>Total Deferred Outflows of Resources</b>	<u>\$ 874,148</u>	<u>\$ 433,948</u>	<u>\$ 1,308,096</u>
<b>Liabilities</b>			
<b><u>Current Liabilities</u></b>			
Accounts payable	\$ 62	\$ -	\$ 62
<b>Total Current Liabilities</b>	<u>62</u>	<u>-</u>	<u>62</u>
<b><u>Noncurrent Liabilities</u></b>			
Net pension liability - CERS	2,032,136	1,008,801	3,040,937
Net OPEB liability - CERS	697,946	346,477	1,044,423
<b>Total Noncurrent Liabilities</b>	<u>2,730,082</u>	<u>1,355,278</u>	<u>4,085,360</u>
<b>Total Liabilities</b>	<u>\$ 2,730,144</u>	<u>\$ 1,355,278</u>	<u>\$ 4,085,422</u>
<b>Deferred Inflows of Resources</b>			
CERS - Pension	\$ 205,168	\$ 101,850	\$ 307,018
CERS - OPEB	36,542	18,141	54,683
<b>Total Deferred Inflows of Resources</b>	<u>\$ 241,710</u>	<u>\$ 119,991</u>	<u>\$ 361,701</u>
<b><u>Net Position</u></b>			
Net investment in capital assets	426,583	-	426,583
Unrestricted	\$ (1,509,836)	\$ (591,535)	\$ (2,101,371)
<b>Total Net Position</b>	<u>\$ (1,083,253)</u>	<u>\$ (591,535)</u>	<u>\$ (1,674,788)</u>

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

# NELSON COUNTY SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

### PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

	Food Service Fund	Childcare Fund	Total Enterprise Funds
<b>Operating Revenues</b>			
Lunchroom sales	\$ 635,222	\$ -	\$ 635,222
Other revenue	-	-	-
Tuition and fees	-	843,128	843,128
<b>Total Operating Revenues</b>	<u>635,222</u>	<u>843,128</u>	<u>1,478,350</u>
<b>Operating Expenses</b>			
Salaries and wages	1,524,304	913,549	2,437,853
Materials and supplies	1,182,673	64,771	1,247,444
Depreciation	93,804	-	93,804
Other operating expenses	625	43	668
<b>Total Operating Expenses</b>	<u>2,801,406</u>	<u>978,363</u>	<u>3,779,769</u>
Operating loss	<u>(2,166,184)</u>	<u>(135,235)</u>	<u>(2,301,419)</u>
<b>Non-Operating Revenues (Expenses)</b>			
Federal grants	1,597,489	-	1,597,489
Donated commodities	172,173	-	172,173
State grants	23,587	-	23,587
State on-behalf payments	160,332	86,810	247,142
<b>Total Non-Operating Revenues (Expenses)</b>	<u>1,953,581</u>	<u>86,810</u>	<u>2,040,391</u>
Transfers in	-	-	-
Transfers out	<u>(140,000)</u>	<u>-</u>	<u>(140,000)</u>
Changes in net position	<u>(352,603)</u>	<u>(48,425)</u>	<u>(401,028)</u>
<b>Net Position, July 1, 2017</b>	<u>(200,024)</u>	<u>(310,888)</u>	<u>(510,912)</u>
<b>Restatement for adoption of GASB 75</b>	<u>(530,626)</u>	<u>(232,222)</u>	<u>(762,848)</u>
<b>Net Position, July 1, 2017, as restated</b>	<u>(730,650)</u>	<u>(543,110)</u>	<u>(1,273,760)</u>
<b>Net Position, June 30, 2018</b>	<u>\$ (1,083,253)</u>	<u>\$ (591,535)</u>	<u>\$ (1,674,788)</u>

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

# NELSON COUNTY SCHOOL DISTRICT

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

	Food Service Fund	Childcare Fund	Total Enterprise Funds
<b>Cash Flows from Operating Activities</b>			
Cash received from:			
Lunchroom sales	\$ 635,222	\$ -	\$ 635,222
Other revenue	-	-	-
Tuition and fees	-	843,128	843,128
Cash paid to/for:			
Employees	(1,202,212)	(632,632)	(1,834,844)
Supplies	(1,009,487)	(64,771)	(1,074,258)
Other activities	(625)	(43)	(668)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(1,577,102)</u>	<u>145,682</u>	<u>(1,431,420)</u>
<b>Cash flows from Non-Capital Financing Activities</b>			
Federal grants	1,591,293	-	1,591,293
State grants	23,587	-	23,587
Transfers to other funds	(140,000)	-	(140,000)
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<u>1,474,880</u>	<u>-</u>	<u>1,474,880</u>
Net change in cash and cash equivalents	(102,222)	145,682	43,460
<b>Balances, beginning of year</b>	<u>624,521</u>	<u>304,104</u>	<u>928,625</u>
<b>Balances, end of year</b>	<u><u>\$ 522,299</u></u>	<u><u>\$ 449,786</u></u>	<u><u>\$ 972,085</u></u>
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating loss	\$ (2,166,184)	\$ (135,235)	\$ (2,301,419)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	93,804	-	93,804
Donated commodities	172,173	-	172,173
State on-behalf payments	160,332	86,810	247,142
CERS pension and OPEB expense	161,760	194,107	355,867
Change in assets and liabilities:			
Inventory	1,013	-	1,013
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>\$ (1,577,102)</u></u>	<u><u>\$ 145,682</u></u>	<u><u>\$ (1,431,420)</u></u>
<b>Schedule of Non-cash Transactions</b>			
Donated commodities received from federal government	\$ 172,173	\$ -	\$ 172,173
State on-behalf payments	\$ 160,332	\$ 86,810	\$ 247,142
CERS Pensions and OPEB	\$ 161,760	\$ 194,107	\$ 355,867

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

**NELSON COUNTY SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION**

**FIDUCIARY FUNDS**

**JUNE 30, 2018**

	Agency Fund
<b>Assets</b>	
Cash and cash equivalents	\$ 762,243
Receivables	<u>1,787</u>
<b>Total Assets</b>	<u><u>\$ 764,030</u></u>
<b>Liabilities</b>	
Accounts payable	\$ 39,764
Due to student groups	<u>724,266</u>
<b>Total Liabilities</b>	<u><u>\$ 764,030</u></u>

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

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The Nelson County Board of Education (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Nelson County Board of Education (District). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Nelson County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Nelson County School District Finance Corporation – In 1988, the Board of Education resolved to authorize the establishment of the Nelson County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the Corporation) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. The Corporation is blended into the District's financial statements.

#### Basis of Presentation

The District's basic financial statement consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities accompanied by a total column.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets as well as long-term liabilities are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for on the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statements of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financial sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District are property tax and utility tax. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The District has the following funds:

#### I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 74. This is a major fund of the District.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
  - 2. The Facility Support Program of Kentucky (FSPK), Building Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
  - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- D. The Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest. This is a major fund of the District.

#### II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
- B. The Child Care Fund is used to account for after school revenues and programs where a fee is charged for participating. The Child Care Fund is a major fund.

#### III. Fiduciary Fund Type (Agency Funds)

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

#### Property Taxes

Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The property tax rates assessed for the year ended June 30, 2018, to finance the General Fund operations were \$0.75 per \$100 valuation for real property, \$0.75 per \$100 valuation for business personal property and \$0.5480 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the district, of telephonic and telegraphic communications services, electric power, water, and natural, artificial and mixed gas.

#### Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	25-50 years
Land Improvements	20 years
Technology Equipment	5 years
Vehicles	5-10 years
Food Service Equipment	10-12 years
Furniture and Fixtures	7 years

#### Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The non-current portion of the liability is not reported.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end in accordance with state law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

#### Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

#### Cash, Cash Equivalents, and Investments

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

The District's investment are reported at fair value.

#### Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

#### Prepaid Assets

Payments made that will benefit periods beyond June 30, 2018 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within 60 days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

#### Compensated Absences

Compensated absences are payments to employees for accumulated sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. District employees may accumulate unused sick leave up to a specified amount depending on their date of hire. Sick leave is payable to employees upon retirement at 30% of the current rate of pay on the date of retirement. The District uses the termination method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee retirements. Compensated absences are not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

#### Pension and OPEB Plans

For purposes of measuring the net pension liability, net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Teachers' Retirement System Kentucky (TRS) and County Employees Retirement System (CERS) and additions to/deductions from TRS's and CERS's fiduciary net position have been determined on the same basis as they are reported by TRS and CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### Fund Balances

Governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

- *Nonspendable fund balance* - amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- *Committed fund balance* – amounts constrained to specific purposes by the District itself, using its decision making authority to be reported as committed, amounts cannot be used for any other purpose unless the District takes action to remove or change the constraint.
- *Assigned fund balance* - amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The Board and its designees (of which there are none) have the authority to assign amounts to be used for specific purposes.
- *Unassigned fund balance* - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### Net Position

Net position represents the difference between a). assets and deferred outflows of resources and b). liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

#### Operating Revenues

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

#### Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

#### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Recently Issued And Adopted Accounting Principles

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and required a restatement of the District's financial statements.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and did not have an effect on the District's financial statements.

In May 2017, the GASB issued Statement 86, *Certain Debt Extinguishment Issues*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and did not have an effect on the District's financial statements.

#### Recently Issued Accounting Principles

In January 2018, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for reporting periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In April 2018, the GASB issued Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement is effective for periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. This statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

### NOTE 2 – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENT DEPOSITS

#### Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2018, \$9,658,568 of the District's bank balance of \$10,640,665 was exposed to custodial credit risk. The \$9,658,568 of the bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution and \$63,697 was uninsured and uncollateralized at June 30, 2018.

#### Investments

Investments recorded by the District include the following certificates of deposits with maturities greater than one-year.

<u>Description</u>	<u>Maturity</u>		<u>Carrying Amount</u>	<u>Rate</u>
Fort Knox Federal Credit Union CD	9/15/2018	\$	3,052,955	1.20%
Well's Fargo CD	5/4/2020		101,193	1.15%
		\$	<u>3,154,148</u>	

Due to the nature of the accounts and limitations imposed by the purposes of the various funds, all cash balances are considered to be restricted except for the General Fund.

The Kentucky Revised Statutes authorize the District to invest money subject to its control in obligations of the United States; bonds or certificates of indebtedness of Kentucky and its agencies and instrumentalities; savings and loan associations insured by an agency of the United States up to the amount insured; and national or state banks chartered in Kentucky and insured by an agency of the United States providing such banks pledge as security obligations, as permitted by KRS 41.240 (4), having a current quoted market value at least equal to uninsured deposits.

The District may legally invest in certificates of deposit and other interest bearing accounts insured by the Federal Deposit Insurance Corporation (FDIC), uncollateralized certificates of deposit rated in one of the three highest categories by a nationally recognized rating agency; obligations of the United States and of its agencies and instrumentalities, including any corporation of the United States government, bonds or certificates of indebtedness of the State of Kentucky and any of its agencies and instrumentalities; or securities issued by a state or local government or any instrumentalities or agency thereof in the United States and rated in one of the three highest categories by a nationally recognized rating agency; commercial paper rated in the highest category by a nationally recognized rating agency and certain mutual funds as more fully described in KRS 66.480. All of the investments of the District are held in U.S. government agency obligations, which carry the explicit guarantee of the U.S. government or certificates of deposit that are insured by the FDIC.

No investments are reported at amortized cost. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investment is a level 1 input.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENT DEPOSITS

Concentration of Credit Risk – The District, in accordance with KRS 66.480, limits the amount that may be invested at any time in uncollateralized certificates of deposit, bankers acceptances, commercial paper and securities issued by a state or local government or any instrumentality or agency thereof, to 20% of the total amount of funds invested by the District. At June 30, 2018, the District did not hold any investments in excess of this limit.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. More specifically, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments held by the District are insured or collateralized with securities held by the financial institution in the District's name.

### NOTE 4 – TRANSFER OF FUNDS

The following transfers were made during the year ending June 30, 2018:

#### Fund Financial Statements:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Technology Match	\$ 104,167
Capital Outlay	Debt Service	Debt Service	409,119
Building Fund	Non-major fund	Debt Service	4,248,654
Food Service Fund	General Fund	Indirect Costs	140,000

#### Government-wide Financial Statements:

From Fund	To Fund	Purpose	Amount
Food Service Fund	General Fund	Indirect Costs	\$ 140,000

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

Governmental Activities	Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018
Capital Assets Not Being Depreciated:				
Land	\$ 2,921,133	\$ -	\$ -	\$ 2,921,133
Construction in progress	7,884,418	2,123,257	(10,007,675)	-
Total Capital Assets Not Being Depreciated	10,805,551	2,123,257	(10,007,675)	2,921,133
Capital Assets Being Depreciated:				
Land improvements	123,218	32,257	-	155,475
Buildings and improvements	120,390,696	10,216,174	-	130,606,870
Technology equipment	3,657,492	195,371	(9,583)	3,843,280
Vehicles	6,097,892	-	(108,444)	5,989,448
General equipment	2,368,668	55,820	-	2,424,488
Total Capital Assets Being Depreciated at Historical Cost	132,637,966	10,499,622	(118,027)	143,019,561
Accumulated depreciation:				
Land improvements	14,358	7,414	-	21,772
Buildings and improvements	40,265,404	3,114,805	-	43,380,209
Technology equipment	2,953,372	316,843	(9,320)	3,260,895
Vehicles	3,680,722	420,097	(108,444)	3,992,375
General equipment	1,513,267	97,837	-	1,611,104
Total accumulated depreciation	48,427,123	3,956,996	(117,764)	52,266,355
Total Other Capital Assets, net	84,210,843	6,542,626	(263)	90,753,206
Governmental Activities Capital Assets - Net	\$ 95,016,394	\$ 8,665,883	\$ (10,007,938)	\$ 93,674,339

Depreciation was charged to governmental functions as follows:

Instruction	\$ 2,752,127
District administration	137,741
School administration	6,944
Plant	669,742
Transportation	390,442
	<u>\$ 3,956,996</u>

Business-Type Activities	Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018
Capital Assets Being Depreciated:				
Technology equipment	\$ 42,977	\$ -	\$ -	\$ 42,977
General equipment	2,073,819	-	-	2,073,819
Totals at historical cost	2,116,796	-	-	2,116,796
Accumulated depreciation:				
Technology equipment	41,734	1,007	-	42,741
General equipment	1,554,675	92,797	-	1,647,472
Total accumulated depreciation	1,596,409	93,804	-	1,690,213
Business-type Activities Capital Assets - Net	\$ 520,387	\$ (93,804)	\$ -	\$ 426,583

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 6 – LONG-TERM OBLIGATIONS

The original amount of each outstanding issue, issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Original Proceeds</u>	<u>Interest Rates</u>
2007	8,475,000	3.75%
2009	8,250,000	1.4% - 4.0%
2010 Ref	2,595,000	1.0% - 2.875%
2011	780,000	1.4% - 4.5%
2011 Ref	8,670,000	0.75% - 2.375%
2014 Ref	18,770,000	2.0% - 3.5%
2014 EN	3,420,000	1.5% - 3.7%
2015 A	8,485,000	2.0% - 3.0%
2015 B	3,485,000	2.0% - 2.45%
2016 A Ref	8,905,000	2.0% - 2.5%
2016 A	6,525,000	2.0% - 3.0%
2016 B Ref	7,260,000	2.0% - 3.3%
2017	3,480,000	2.0% - 3.0%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Nelson County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs.

The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2018 for debt service (principal and interest) are as follows:

Year	SFCC				
Ending					
June 30	Principal	Interest	Participation	District's Portion	
2019	\$ 4,190,000	\$ 1,636,255	\$ 832,905	\$ 4,993,350	
2020	4,295,000	1,542,973	833,115	5,004,858	
2021	4,395,000	1,452,020	832,874	5,014,146	
2022	4,505,000	1,351,908	832,254	5,024,654	
2023	4,615,000	1,249,808	832,352	5,032,456	
2024- 2028	23,070,000	4,495,624	2,245,131	25,320,493	
2029 - 2033	15,470,000	1,387,712	601,663	16,256,049	
2034 - 2038	2,765,000	159,561	106,881	2,817,680	
	\$ 63,305,000	\$ 13,275,861	\$ 7,117,175	\$ 69,463,686	

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

#### Capital Lease Obligations

The District has entered into a capital lease agreement for the purchase of copier/fax/scanning equipment to be used District-wide. Future minimum lease payments under the terms of the lease are as follows:

2019	\$ 101,148
2020	33,716
	<u>134,864</u>
Less: amount representing interest	(5,203)
Present value of minimum lease payments	<u>\$ 129,661</u>
Current maturities	\$ 96,335
Non-current maturities	33,326
	<u>\$ 129,661</u>

Capital assets under capital leases are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense. The cost of the equipment under capital lease is \$290,176.

#### Changes in Long-term Obligations

Long-term liability activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Bonds Payable:					
Revenue bonds	\$ 67,425,000	\$ -	\$ 4,120,000	\$ 63,305,000	\$ 4,190,000
Less Premium (Discount)	(484,609)	-	47,437	(437,172)	-
Total Bonds Payable	<u>66,940,391</u>	<u>-</u>	<u>4,167,437</u>	<u>62,867,828</u>	<u>4,190,000</u>
Other Liabilities:					
Other capital lease obligation	220,761	-	91,100	129,661	96,335
Compensated absences	818,801	61,745	279,788	600,758	90,114
Total Other Liabilities	<u>1,039,562</u>	<u>61,745</u>	<u>370,888</u>	<u>730,419</u>	<u>186,449</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 67,979,953</u>	<u>\$ 61,745</u>	<u>\$ 4,538,325</u>	<u>\$ 63,598,247</u>	<u>\$ 4,376,449</u>

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

#### Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and building funds. The general fund is primarily responsible for paying accrued sick leave.

### NOTE 7 – PENSION PLANS

#### Plan Descriptions

The Nelson County School District participates in the Teachers' Retirement System of the State of Kentucky (TRS), a component unit of the Commonwealth of Kentucky which includes certified employees and the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which includes all other employees, both of which are cost-sharing multiple-employer defined benefit plans. TRS, which qualifies as a special funding situation under GASB 68, and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. TRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The TRS and CERS issue a publicly available financial reports that include financial statements and required supplementary information. TRS' report may be obtained at [www.ktrs.ky.gov](http://www.ktrs.ky.gov). CERS' report may be obtained at [www.kyret.ky.gov](http://www.kyret.ky.gov).

#### **TRS**

##### ***Retirement Plan***

#### Benefits Provided

*For Members Before July 1, 2008:*

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete twenty-seven (27) years of Kentucky service.

## NELSON COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

#### NOTE 7 – PENSION PLANS – CONTINUED

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members receive monthly payments equal to two percent (2%) (service prior to July 1, 1983) and two and one-half percent (2.5%) (service after July 1, 1983) of their final average salaries for each year of credited service. Non-university members who became members on or after July 1, 2002 will receive monthly benefits equal to two percent (2%) of their final average salary for each year of service if, upon retirement, their total service is less than ten (10) years. New members after July 1, 2002 who retire with ten (10) or more years of total service will receive monthly benefits equal to two and one-half percent (2.5%) of their final average salary for each year of service, including the first ten (10) years. In addition, non-university members who retire July 1, 2004 and later with more than thirty (30) years of service will have their multiplier increased for all years over thirty (30) from two and one-half percent (2.5%) to three percent (3%) to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service. The System also provides disability benefits for vested members at the rate of sixty percent (60%) of the final average salary. Cost of living increases are one and one-half percent (1.5%) annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

*For Members On or After July 1, 2008:*

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age sixty (60) and complete five (5) years of Kentucky service, or
- 2.) Complete twenty-seven (27) years of Kentucky service, or
- 3.) Attain age fifty-five (55) and complete ten (10) years of Kentucky service.

The annual retirement allowance for non-university members is equal to: (a) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is 10 years or less; (b) two percent (2.0%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) two and three tenths percent (2.3%) of final average salary for each year of credited service if their service is greater than 20 years but no more than 26 years; (d) two and one half percent (2.5%) of final average salary for each year of credited service if their service is greater than 26 years but no more than 30 years; (e) three percent (3.0%) of final average salary for years of credited service greater than 30 years.

The annual retirement allowance for university members is equal to: (a) one and one-half percent (1.5%) of final average salary for each year of credited service if their service is 10 years or less; (b) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) one and eighty five hundredths percent (1.85%) of final average salary for each year of credited service if their service is greater than 20 years but less than 27 years; (d) two percent (2.0%) of final average salary for each year of credited service if their service is greater than or equal to 27 years.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 7 – PENSION PLANS – CONTINUED

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

#### Contributions

Contribution rates are established by Kentucky Revised Statutes. The State contributes 100 percent of school districts' contractually required contributions, which are actuarially determined. Employees are required to contribute 12.855 percent of their annual salary. The school districts' contractually required contribution rate for the year ended June 30, 2018, was 13.105 percent of salaries for members in the plan before July 1, 2008 and 14.105 percent of salaries for members who started their account after June 30, 2008. The District made no contributions to the pension plan for the year ended June 30, 2018. The District reimburses the State for retirement benefits paid on all federally funded employees.

#### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported no net pension liability because it did not have a proportionate share of the net pension liability. There was no amount recognized by the District as its proportionate share of the net pension liability. The related State share of the net pension liability was \$168,684,244.

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2017, the District's proportion was 0 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$12,183,868 and revenue of \$12,183,868 (\$5,993,246 in the governmental funds and an additional \$6,190,622 in government-wide activities) for support provided by the State. At June 30, 2018, the District reported no deferred outflows of resources and no deferred inflows of resources related to TRS.

#### Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.50 – 7.30 percent, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025, set forward two years for males and one year for females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study prepared for the period July 1, 2010 – June 30, 2015, submitted to and adopted by the Board on September 19, 2016.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 7 – PENSION PLANS – CONTINUED

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	42%	4.4%
International Equity	20%	5.3%
Fixed Income	16%	1.2%
Other	9%	3.6%
Real Estate	5%	4.4%
Alternatives	6%	6.7%
Cash	2%	0.8%
	<u>100%</u>	

#### Discount Rate

Discount rate. The discount rate used to measure the total pension liability was 4.49 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that Employer contributions will be made at statutorily required rates, and the additional amount appropriated for fiscal year 2018. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2038 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2037 and a municipal bond index rate of 3.56 percent was applied to all periods of projected benefit payments after 2037. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

#### Sensitivity Of The Net Pension Liability To Changes In The Discount Rate

The District has no proportional share of the net pension liability. The following presents the sensitivity of the System's net pension liability calculated using the discount rate of 4.49 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.49 percent) or 1-percentage-point higher (5.49 percent) than the current rate:

	<u>1 % Decrease (3.49%)</u>	<u>Current Discount Rate (4.49%)</u>	<u>1% Increase (5.49)</u>
System's net pension liability (in thousands)	\$ 35,029,551	\$ 28,259,123	\$ 22,702,413

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 7 – PENSION PLANS – CONTINUED

#### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued TRS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

#### **CERS**

#### Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

#### Contributions

For the fiscal year ended June 30, 2018, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The school districts' contractually required contribution rate for the year ended June 30, 2018, was 14.48 percent of annual creditable compensation. Contributions to the pension plan from the District were \$885,517.

#### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability of \$14,384,562 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.245751 percent, which was an increase of .003941 percent from its proportion measured as of June 30, 2016.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 7 – PENSION PLANS – CONTINUED

For the year ended June 30, 2017, the District recognized pension expense of \$1,501,118. At June 30, 2018, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 17,842	\$ 365,142
Changes in actuarial assumptions	2,654,341	-
Difference between projected and actual investment earnings	1,139,240	961,320
Changes in proportion and differences between employer contributions and proportionate share of contributions	128,314	125,824
Contributions paid to CERS subsequent to the measurement date	885,517	-
	<u>\$ 4,825,254</u>	<u>\$ 1,452,286</u>

The amount reported as deferred outflows for District contributions subsequent to the measurement date of \$885,517 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2019	\$ 1,054,814
2020	1,109,131
2021	508,211
2022	(184,705)
	<u>\$ 2,487,451</u>

#### Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30 percent
Salary increases	3.05 percent, average, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

#### Actuarial Assumptions

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

## NELSON COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

#### NOTE 7 – PENSION PLANS – CONTINUED

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013 and adopted by the Board on December 4, 2014.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	18%	5.97%
International Equity	18%	7.85%
Global Bonds	4%	2.63%
Global Credit	2%	3.63%
High Yield	7%	5.75%
Emerging Market Debt	5%	5.50%
Private Credit	10%	8.75%
Real Estate	5%	7.63%
Absolute Return	10%	5.63%
Real Return	10%	6.13%
Private Equity	10%	8.25%
Cash	2%	1.88%
	<u>100%</u>	

#### Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year closed amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CERS Comprehensive Annual Financial Report.

## NELSON COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

#### NOTE 7 – PENSION PLANS – CONTINUED

##### Sensitivity Of The District's Proportionate Share Of The Net Pension Liability To Changes In The Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	\$ 18,142,041	\$ 14,384,562	\$ 11,241,458

##### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

#### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS

##### Plan Descriptions

The Simpson County School District participates in the Teachers' Retirement System of the State of Kentucky (TRS), a component unit of the Commonwealth of Kentucky which includes certified employees and the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which includes all other employees, both of which are cost-sharing multiple-employer defined benefit plans. TRS, which qualifies as a special funding situation for the Life Insurance Fund under GASB 75, and CERS provide other post-employment benefits to plan members and beneficiaries. TRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The TRS and CERS issue a publicly available financial reports that include financial statements and required supplementary information. TRS' report may be obtained at [www.trs.ky.gov](http://www.trs.ky.gov). CERS' report may be obtained at [www.kyret.ky.gov](http://www.kyret.ky.gov).

##### **TRS**

##### General Information about the OPEB Plan

Plan description – Teaching-certified employees of the Kentucky School District are provided OPEBs through the Teachers' Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at [www.trs.ky.gov](http://www.trs.ky.gov).

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance and Life Insurance Plans. The following information is about the TRS plans:

#### Medical Insurance Fund

**Plan description** – In addition to the OPEB benefits described above, Kentucky Revised Statute 161.675 requires TRS to provide post-employment healthcare benefits to eligible members and dependents. The TRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

**Benefits provided** – To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

**Contributions** – In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

#### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the District reported a liability of \$11,726,113 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was 0.328851 percent.

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ 11,726,113
State proportionate share of the net OPEB liability associated with the District	9,579,000
	<u>\$ 21,305,113</u>

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

For the year ended June 30, 2018, the District recognized OPEB revenue and expense of \$278,929 in the governmental funds and revenues and expenses of \$384,000 (\$278,929 in the governmental funds and an additional \$105,071 in government-wide activities) for support provided by the Commonwealth. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ -	\$ 83,109
Contributions paid to TRS subsequent to the measurement date	613,167	-
	<u>\$ 613,167</u>	<u>\$ 83,109</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$613,167 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ending June 30	Pension Expense Amount
2019	\$ 20,914
2020	20,915
2021	20,915
2022	20,365
	<u>\$ 83,109</u>

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and Older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B Premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Municipal Bond Index Rate	3.56%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected
		Geometric Real Rate of Return
Global Equity	60%	5.1%
Fixed Income	9%	1.2%
Real Estate	5%	4.0%
Private Equity	5%	6.6%
High Yield	10%	4.3%
Other	10%	3.3%
Cash	1%	0.5%
	<u>100%</u>	

Discount rate - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

#### Sensitivity Of The District's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 8.00%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

	1 % Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net OPEB liability	\$ 13,654,557	\$ 11,726,113	\$ 10,119,970

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1 % Decrease (3.20%)	Current Trend Rate (4.20%)	1% Increase (5.20)
District's proportionate share of the net OPEB liability	\$ 9,818,908	\$ 11,726,113	\$ 14,078,905

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

#### Life Insurance Fund

Plan description – Life Insurance Fund – TRS administers the life insurance fund as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the TRS Board of Trustees and the General Assembly.

Benefits provided – TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member's estate or to a party designated by the member.

Contributions – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.03%) of the gross annual payroll of members is contributed by the Commonwealth.

#### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability was \$0 and the Commonwealth's total portion of the net OPEB liability that was associated with the District was \$128,000.

For the year ended June 30, 2018, the District recognized OPEB expense of \$26,653 and revenue of \$26,653 (\$7,653 in the governmental funds and an additional \$19,000 in government-wide activities) for support provided by the Commonwealth. At June 30, 2018, the District reported no deferred outflows of resources and deferred inflows of resources related to the OPEB.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.56%
Discount Rate	7.75%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Large Cap Equity	38%	4.30%
U.S. Small Cap Equity	3%	4.80%
Developed Int'l Equity	16%	5.20%
Emerging Market Equity	4%	5.40%
Fixed Income - Inv Grade	16%	1.20%
Real Estate	6%	4.00%
Private Equity	7%	6.60%
High Yield	2%	4.30%
Other	7%	3.30%
Cash	1%	0.50%
	<u>100%</u>	

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

Discount rate - The discount rate used to measure the total OPEB liability for life insurance was 7.50%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

#### Sensitivity Of The Net OPEB Liability To Changes In The Discount Rate

The District has no proportional share of the net pension liability. The following presents the sensitivity of the System's net pension liability calculated using the discount rate of 7.50 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1 % Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
System's net OPEB liability	\$ 36,497,000	\$ 21,959,000	\$ 10,055,000

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

### CERS

Plan description – The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

Benefits provided – For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

Contributions – For the fiscal year ended June 30, 2018, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The school districts' contractually required contribution rate for the year ended June 30, 2018, was 4.70 percent of annual creditable compensation. Contributions to the pension plan from the District were \$191,657.

#### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the District reported a liability of \$4,940,437 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.245751 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$245,510. At June 30, 2018, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 13,722
Changes in actuarial assumptions	1,075,009	-
Difference between projected and actual investment earnings	-	233,482
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	11,463
Contributions paid to CERS subsequent to the measurement date	287,426	-
	<u>\$ 1,362,435</u>	<u>\$ 258,667</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$287,426 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

Year Ending June 30	Pension Expense Amount
2019	\$ 140,460
2020	140,460
2021	140,460
2022	140,460
2023	198,830
Thereafter	55,672
	<u>\$ 816,342</u>

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.05%, average
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Municipal Bond Index Rate	3.56%
Discount Rate	5.83%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 — June 30, 2013.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	18%	5.97%
International Equity	18%	7.85%
Global Bonds	4%	2.63%
Global Credit	2%	3.63%
High Yield	7%	5.75%
Emerging Market Debt	5%	5.50%
Private Credit	10%	8.75%
Real Estate	5%	7.63%
Absolute Return	10%	5.63%
Real Return	10%	6.13%
Private Equity	10%	8.25%
Cash	2%	1.88%
	<u>100%</u>	

The projection of cash flows used to determine the discount rate of 5.84% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

#### Sensitivity Of The District's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.83%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.83%) or 1-percentage-point higher (6.83%) than the current rate:

	1% Decrease -4.83%	Current Discount Rate -5.83%	1% Increase -6.83%
District's proportionate share of the net OPEB liability	\$ 6,286,431	\$ 4,940,437	\$ 3,820,356

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 3,789,568	\$ 4,940,437	\$ 6,436,495

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS financial report.

### DEFERRED COMPENSATION

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Sections 457, 401(k) and 403(b). The Plans, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not show these assets and liabilities on these financial statements.

### NOTE 9 – FUND BALANCES

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2018, the District had \$183,891 restricted for student activities in the special revenue fund, \$1,844,006 restricted for capital projects in the Construction Fund, and \$233,204 restricted for debt service in the Building Fund.

## **NELSON COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

#### **NOTE 9 – FUND BALANCES – CONTINUED**

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following general fund commitments at June 30, 2018: \$250,000 for sick leave; \$430,000 for future site costs, \$325,000 for future general fund construction, and \$256,756 for future technology upgrades.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. There were no amounts assigned related to encumbrances at June 30, 2018. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. At June 30, 2018, the District had no assigned fund balances.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

#### **NOTE 10 – COMMITMENTS AND CONTINGENCIES**

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress of the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

# **NELSON COUNTY SCHOOL DISTRICT**

## **NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

### **NOTE 11 – LITIGATION**

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress. The Nelson County School District is covered by insurance which provides for a defense and response to the litigation.

### **NOTE 12 – INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

### **NOTE 13 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for errors and omissions and general liability coverage, the District purchases insurance with a commercial insurance company. District purchases insurance through Kentucky Employers Mutual Insurance for workers compensation.

The District purchases unemployment insurance through the Kentucky School Board's Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### **NOTE 14 – DEFICIT OPERATING BALANCES**

The Food Service Fund and Child Care Fund had a deficit net position at June 30, 2018 in the amounts of \$1,083,253 and \$591,535, respectively. The deficit net position is a result of the recording of the net pension liability and net OPEB liability for CERS.

The following funds had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of net position / fund balance:

General Fund	\$	353,980
Special Revenue Fund		15,815
Construction Fund		2,038,356
Debt Service Fund		30,338
Food Service Fund		352,603
Child Care Fund		232,222

# NELSON COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 15 – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the Commonwealth of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amounts received and funds where these items were recorded for the fiscal year ended June 30, 2018 were as follows:

Health	\$ 4,372,525
Life	7,653
Admin	63,487
HRA	363,212
TRS - Pension	5,993,246
TRS - OPEB	465,864
Technology	86,832
Debt Service	837,033
Less: Federal Reimbursement	<u>(229,666)</u>
Total on-behalf	<u>\$ 11,960,186</u>

Recorded as follows:

General Fund	\$ 10,876,011
Food Service Fund	160,332
Daycare Fund	86,810
Debt Service Fund	<u>837,033</u>
	<u>\$ 11,960,186</u>

### NOTE 16 – PRIOR PERIOD ADJUSTMENT

During fiscal year 2018, the District adopted the provisions of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This required a restatement to beginning net position as follows:

	Governmental activities	Business-type activities	Total
Net position, as previously reported	\$ 29,141,948	\$ (510,912)	\$ 28,631,036
Net OPEB liability - TRS	(11,609,591)	-	(11,609,591)
Net OPEB liability - CERS	(3,051,961)	(823,170)	(3,875,131)
Deferred outflows OPEB - TRS	580,340	-	580,340
Deferred outflows OPEB - CERS	223,649	60,322	283,971
Net position, as restated	<u>\$ 15,284,385</u>	<u>\$ (1,273,760)</u>	<u>\$ 14,010,625</u>
	Food Service Fund	Child Care Fund	Total Enterprise Total
Net position, as previously reported	\$ (200,024)	\$ (310,888)	\$ (510,912)
Net OPEB liability - CERS	(572,585)	(250,585)	(823,170)
Deferred outflows OPEB - CERS	41,959	18,363	60,322
Net position, as restated	<u>\$ (730,650)</u>	<u>\$ (543,110)</u>	<u>\$ (1,273,760)</u>

# **NELSON COUNTY SCHOOL DISTRICT**

## **NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

### **NOTE 17 – COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

## **REQUIRED SUPPLEMENTARY INFORMATION**

# NELSON COUNTY SCHOOL DISTRICT

## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET TO ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2018

	Original	Final	Actual
<b>Revenues</b>			
From local sources:			
Taxes:			
Property	\$ 9,860,000	\$ 10,735,000	\$ 10,742,559
Motor vehicle	1,335,000	1,400,000	1,566,815
Utilities	1,700,000	1,700,000	1,725,834
Distilled spirits	2,400,000	2,575,000	2,623,902
Earnings on investments	-	40,000	56,673
Other local revenues	115,000	115,000	203,090
Intergovernmental - State	22,288,000	21,780,906	25,366,811
<b>Total Revenues</b>	<u>37,698,000</u>	<u>38,345,906</u>	<u>42,285,684</u>
<b>Expenditures</b>			
Instruction	21,568,516	22,261,965	24,516,833
Support services:			
Student	1,617,896	1,865,159	1,994,481
Instruction staff	1,620,492	1,856,923	2,084,820
District administrative	1,462,564	1,255,786	1,528,580
School administrative	2,916,840	3,066,151	3,319,989
Business	1,526,458	1,650,863	1,688,044
Plant operation and maintenance	3,849,573	4,264,993	4,875,439
Student transportation	2,910,661	2,397,066	2,403,565
Other	2,180,000	2,180,000	-
Debt service:			
Principal	185,000	37,000	269,858
Interest	-	-	45,959
<b>Total Expenditures</b>	<u>39,838,000</u>	<u>40,835,906</u>	<u>42,727,568</u>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<u>(2,140,000)</u>	<u>(2,490,000)</u>	<u>(441,884)</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from disposal of capital assets	-	-	52,071
Transfers in	140,000	140,000	140,000
Transfers out	(100,000)	(100,000)	(104,167)
<b>Total Other Financing Sources (Uses)</b>	<u>40,000</u>	<u>40,000</u>	<u>87,904</u>
<b>Net Change in Fund Balance</b>	(2,100,000)	(2,450,000)	(353,980)
<b>Fund Balance, July 1, 2017</b>	2,100,000	2,450,000	3,785,387
<b>Fund Balance, June 30, 2018</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,431,407</u>

See accompanying independent auditor's report.

# NELSON COUNTY SCHOOL DISTRICT

## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET TO ACTUAL SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2018

	Original	Final	Actual
<b>Revenues</b>			
Other local revenues	\$ 19,840	\$ 20,000	\$ 290,836
Intergovernmental - State	1,655,123	1,520,041	2,059,087
Intergovernmental - Indirect Federal	2,082,750	2,009,057	1,865,780
Intergovernmental - Direct Federal	-	-	285,968
<b>Total Revenues</b>	<u>3,757,713</u>	<u>3,549,098</u>	<u>4,501,671</u>
<b>Expenditures</b>			
Instruction	2,590,739	2,377,413	2,756,878
Support services:			
Student	270,075	269,458	376,355
Instruction staff	240,169	180,890	220,517
Business	150,000	250,000	429,208
Plant operation and maintenance	-	-	24,454
Student transportation	291,220	283,705	495,199
Community service activities	292,016	290,615	319,042
<b>Total Expenditures</b>	<u>3,834,219</u>	<u>3,652,081</u>	<u>4,621,653</u>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<u>(76,506)</u>	<u>(102,983)</u>	<u>(119,982)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	100,000	192,013	104,167
Transfers out	-	(92,014)	-
<b>Total Other Financing Sources (Uses)</b>	<u>100,000</u>	<u>99,999</u>	<u>104,167</u>
<b>Net Change in Fund Balance</b>	<u>23,494</u>	<u>(2,984)</u>	<u>(15,815)</u>
<b>Fund Balance, July 1, 2017</b>	<u>-</u>	<u>2,984</u>	<u>199,706</u>
<b>Fund Balance, June 30, 2018</b>	<u>\$ 23,494</u>	<u>\$ -</u>	<u>\$ 183,891</u>

See accompanying independent auditor's report.

# NELSON COUNTY SCHOOL DISTRICT

## SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

FOR THE YEAR ENDED JUNE 30, 2018

<b>CERS</b>					*				
	<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>		
Proportion of the net pension liability	0.245751%		0.241810%		0.248350%		0.252790%		
Proportionate share of the net pension liability	\$ 14,384,562	\$	11,905,816	\$	10,678,078	\$	8,201,309		
Covered - employee payroll	\$ 6,003,620	\$	5,880,370	\$	5,801,992	\$	5,461,978		
Proportionate share of the net pension liability as percentage of covered payroll	239.6%		202.5%		184.0%		150.2%		
Plan fiduciary net position as a percentage of the total pension liability	53.30%		55.50%		59.97%		66.80%		
<b>TRS</b>					*				
	<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>		
Proportion of the net pension liability	0.00000%		0.00000%		0.00000%		0.00000%		
District's proportionate share of the net pension liability	\$ -	\$	-	\$	-	\$	-		
State proportionate share of the net pension liability associated with the District	<u>168,684,244</u>		<u>182,723,668</u>		<u>144,669,837</u>		<u>122,991,359</u>		
Total	<u>\$ 168,684,244</u>	<u>\$</u>	<u>182,723,668</u>	<u>\$</u>	<u>144,669,837</u>	<u>\$</u>	<u>122,991,359</u>		
Covered - employee payroll	\$ 18,260,022	\$	18,312,036	\$	18,016,715	\$	17,821,912		
District's proportionate share of the net pension liability as percentage of covered payroll	0.0%		0.0%		0.0%		0.0%		
Plan fiduciary net position as a percentage of the total pension liability	39.80%		35.20%		42.50%		45.59%		

\* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will report available information.

Note: The amounts presented for each fiscal year were determined as of the prior fiscal year-end June 30.

See accompanying independent auditor's report.

# NELSON COUNTY SCHOOL DISTRICT

## SCHEDULES DISTRICT CONTRIBUTIONS

FOR THE YEAR ENDED JUNE 30, 2018

### CERS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<sup>*</sup> <u>2015</u>
Contractually required contribution (actuarially determined)	\$ 885,517	\$ 837,505	\$ 730,342	\$ 739,754
Contribution in relation to the actuarially determined contributions	<u>885,517</u>	<u>837,505</u>	<u>730,342</u>	<u>739,754</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 6,115,449	\$ 6,003,620	\$ 5,880,370	\$ 5,801,992
Contributions as a percentage of covered employee payroll	14.48%	13.95%	12.42%	12.75%

### TRS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<sup>*</sup> <u>2015</u>
Contractually required contribution (actuarially determined)	\$ -	\$ -	\$ -	\$ -
Contribution in relation to the actuarially determined contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 18,928,279	\$ 18,260,022	\$ 18,312,036	\$ 18,016,715
Contributions as a percentage of covered employee payroll	0.00%	0.00%	0.00%	0.00%

\* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will report available information.

Note: The amounts presented for each fiscal year were determined as of the prior fiscal year-end June 30.

See accompanying independent auditor's report.

## NELSON COUNTY SCHOOL DISTRICT

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSIONS

JUNE 30, 2018

#### CERS PENSION

*Changes of benefit terms.* There were no changes in benefit terms for 2015 through 2018.

*Changes of assumptions:*

2015

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2016 and 2017

No changes.

2018

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

#### TRS PENSION

*Changes of benefit terms.* There were no changes in benefit terms for 2015 through 2018.

*Changes of assumptions.* The following changes in assumptions were made:

*Changes of assumptions.* In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions. Beginning with the 2014 valuation, the interest smoothing methodology is no longer used. There were no changes for 2015 to 2018.

See accompanying independent auditor's report.

## NELSON COUNTY SCHOOL DISTRICT

### SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE TRS NET OPEB LIABILITY – MEDICAL INSURANCE FUND

JUNE 30, 2018

	<sup>*</sup> <u>2018</u>
Proportion of the net OPEB liability	0.32885%
District's proportionate share of the net OPEB liability	\$ 11,726,113
State proportionate share of the net OPEB liability associated with the District	<u>9,579,000</u>
Total	<u>\$ 21,305,113</u>
Covered - employee payroll	\$ 18,260,022
District's proportionate share of the net OPEB liability as percentage of covered payroll	64.2%
Plan fiduciary net position as a percentage of the total OPEB liability	81.38%

\* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will report available information.

See accompanying independent auditor's report.

**NELSON COUNTY SCHOOL DISTRICT****SCHEDULE OF THE CONTRIBUTIONS TO TRS MEDICAL INSURANCE FUND**

JUNE 30, 2018

	*
	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 613,167
Contribution in relation to the actuarially determined contributions	<u>613,167</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 20,438,900
Contributions as a percentage of covered employee payroll	3.00%

\* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will report available information.

See accompanying independent auditor's report.

## NELSON COUNTY SCHOOL DISTRICT

### SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE TRS NET OPEB LIABILITY – LIFE INSURANCE FUND

JUNE 30, 2018

		*
		<u>2018</u>
Proportion of the net OPEB liability		0.00000%
District's proportionate share of the net OPEB liability	\$	-
State proportionate share of the net OPEB liability associated with the District		<u>128,000</u>
Total	\$	<u>128,000</u>
Covered - employee payroll	\$	18,260,022
District's proportionate share of the net OPEB liability as percentage of covered payroll		0.0%
Plan fiduciary net position as a percentage of the total OPEB liability		80.00%

\* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will report available information.

See accompanying independent auditor's report.

# NELSON COUNTY SCHOOL DISTRICT

## SCHEDULE OF CONTRIBUTIONS TO THE TRS LIFE INSURANCE FUND

JUNE 30, 2018

	<sup>*</sup> <u>2018</u>
Contractually required contribution (actuarially determined)	\$ -
Contribution in relation to the actuarially determined contributions	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 20,438,900
Contributions as a percentage of covered employee payroll	0.00%

\* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will report available information.

See accompanying independent auditor's report.

## NELSON COUNTY SCHOOL DISTRICT

### SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET OPEB LIABILITY

JUNE 30, 2018

		<sup>*</sup> <u>2018</u>
Proportion of the net OPEB liability		0.241810%
Proportionate share of the net OPEB liability	\$	4,940,437
Covered - employee payroll	\$	6,115,449
Proportionate share of the net OPEB liability as percentage of covered payroll		80.8%
Plan fiduciary net position as a percentage of the total OPEB liability		55.50%

\* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will report available information.

See accompanying independent auditor's report.

# NELSON COUNTY SCHOOL DISTRICT

## SCHEDULE OF CONTRIBUTIONS TO CERS OPEB

JUNE 30, 2018

		*
		<u>2018</u>
Contractually required contribution (actuarially determined)	\$	287,426
Contribution in relation to the actuarially determined contributions		<u>287,426</u>
Contribution deficiency (excess)	\$	<u>-</u>
Covered employee payroll	\$	6,115,449
Contributions as a percentage of covered employee payroll		4.70%

\* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will report available information.

See accompanying independent auditor's report.

## **NELSON COUNTY SCHOOL DISTRICT**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB**

JUNE 30, 2018

#### **CERS OPEB**

*Changes of benefit terms.* There were no changes in benefit terms for 2018.

*Changes of assumptions:*

2018

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%. For the Non-Hazardous Plan, the single discount rate changed from 6.89% to 5.84%. For the Hazardous Plan, the single discount rate changed from 7.37% to 5.96%.

#### **TRS OPEB**

*Changes of benefit terms.*

2018

MIF – With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the State will only finance, via its KEHP "shared responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

LIF - None

*Changes of assumptions.* There were no changes in assumptions for 2018.

See accompanying independent auditor's report.

## **SUPPLEMENTARY INFORMATION**

**NELSON COUNTY SCHOOL DISTRICT****COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2018

	Capital Outlay Fund	Building Fund	Total Nonmajor Governmental Funds
<b>Assets:</b>			
Cash and cash equivalents	\$ -	\$ 233,204	\$ 233,204
Receivables	-	-	-
<b>Total Assets</b>	<u>\$ -</u>	<u>\$ 233,204</u>	<u>\$ 233,204</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ -	\$ -
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>			
Restricted	-	233,204	233,204
<b>Total Fund Balances</b>	<u>-</u>	<u>233,204</u>	<u>233,204</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ -</u>	<u>\$ 233,204</u>	<u>\$ 233,204</u>

See accompanying independent auditor's report.

# NELSON COUNTY SCHOOL DISTRICT

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

	Capital Outlay Fund	Building Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>			
From local sources:			
Taxes:			
Property	\$ -	\$ 3,840,000	\$ 3,840,000
Earnings on investments	-	-	-
Other local revenue	-	-	-
Intergovernmental - State	409,119	641,858	1,050,977
<b>Total Revenues</b>	<u>409,119</u>	<u>4,481,858</u>	<u>4,890,977</u>
<b>Other Financing Sources (Uses)</b>			
Transfers out	<u>(409,119)</u>	<u>(4,248,654)</u>	<u>(4,657,773)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(409,119)</u>	<u>(4,248,654)</u>	<u>(4,657,773)</u>
<b>Net Change in Fund Balances</b>	-	233,204	233,204
<b>Fund balance, July 1, 2017</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance, June 30, 2018</b>	<u><u>\$ -</u></u>	<u><u>\$ 233,204</u></u>	<u><u>\$ 233,204</u></u>

See accompanying independent auditor's report.

# NELSON COUNTY SCHOOL DISTRICT

## COMBINING STATEMENT OF FIDUCIARY NET POSITION – AGENCY FUNDS

JUNE 30, 2018

	Bloomfield Middle School	New Haven School	Boston School	Old Kentucky Home Middle School	Cox's Creek Elementary School	Foster Heights Elementary School
<b>Assets</b>						
Cash and cash equivalents	\$ 60,874	\$ 34,872	\$ 35,833	\$ 41,829	\$ 25,008	\$ 60,752
Receivables	-	-	-	-	352	727
<b>Total Assets</b>	<u>\$ 60,874</u>	<u>\$ 34,872</u>	<u>\$ 35,833</u>	<u>\$ 41,829</u>	<u>\$ 25,360</u>	<u>\$ 61,479</u>
<b>Liabilities</b>						
Accounts payable	\$ -	\$ -	\$ 1,415	\$ -	\$ 63	\$ 946
Due to student groups	60,874	34,872	34,418	41,829	25,297	60,533
<b>Total Liabilities</b>	<u>\$ 60,874</u>	<u>\$ 34,872</u>	<u>\$ 35,833</u>	<u>\$ 41,829</u>	<u>\$ 25,360</u>	<u>\$ 61,479</u>
	Nelson County High School	Bloomfield Elementary School	Thomas Nelson High School	Early Childhood Center	Hoirzons Academy	Total Agency Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 293,081	\$ 69,054	\$ 133,576	\$ 3,556	\$ 3,808	\$ 762,243
Receivables	708	-	-	-	-	1,787
<b>Total Assets</b>	<u>\$ 293,789</u>	<u>\$ 69,054</u>	<u>\$ 133,576</u>	<u>\$ 3,556</u>	<u>\$ 3,808</u>	<u>\$ 764,030</u>
<b>Liabilities</b>						
Accounts payable	\$ 28,244	\$ -	\$ 9,096	\$ -	\$ -	\$ 39,764
Due to student groups	265,545	69,054	124,480	3,556	3,808	724,266
<b>Total Liabilities</b>	<u>\$ 293,789</u>	<u>\$ 69,054</u>	<u>\$ 133,576</u>	<u>\$ 3,556</u>	<u>\$ 3,808</u>	<u>\$ 764,030</u>

See accompanying independent auditor's report.

# NELSON COUNTY SCHOOL DISTRICT

## SCHEDULE OF ASSETS, RECEIPTS, DISBURSEMENTS, AND LIABILITIES – ALL SCHOOLS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

SCHOOL	CASH BALANCE JULY 1, 2017	RECEIPTS	DISBURSE- MENTS	CASH BALANCE JUNE 30, 2018	RECEIVABLES JUNE 30, 2018	ACCOUNTS PAYABLE JUNE 30, 2018	DUE TO STUDENT GROUPS JUNE 30, 2018
Bloomfield Middle School	\$ 64,735	\$ 141,774	\$ 145,635	\$ 60,874	\$ -	\$ -	\$ 60,874
New Haven Elementary School	41,219	91,060	97,407	34,872	-	-	34,872
Boston Elementary School	27,797	114,880	106,844	35,833	-	1,415	34,418
Old Ky Home Middle School	54,882	212,840	225,893	41,829	-	-	41,829
Cox's Creek Elementary School	20,853	109,436	105,281	25,008	352	63	25,297
Foster Heights Elementary Schoo	60,021	158,983	158,252	60,752	727	946	60,533
Nelson County High School	250,133	635,192	592,244	293,081	708	28,244	265,545
Bloomfield Elementary School	73,590	66,943	71,479	69,054	-	-	69,054
Thomas Nelson High School	131,740	510,386	508,550	133,576	-	9,096	124,480
Nelson Co. Early Learning Center	5,193	15,960	17,597	3,556	-	-	3,556
Horizons Academy	2,291	1,834	317	3,808	-	-	3,808
	<u>\$ 732,454</u>	<u>\$ 2,059,288</u>	<u>\$ 2,029,499</u>	<u>\$ 762,243</u>	<u>\$ 1,787</u>	<u>\$ 39,764</u>	<u>\$ 724,266</u>

See accompanying independent auditor's report.

# NELSON COUNTY SCHOOL DISTRICT

## SCHEDULE OF ASSETS, RECEIPTS, DISBURSEMENTS, AND LIABILITIES – NELSON COUNTY HIGH SCHOOL

AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

NAME OF ACTIVITY	CASH BALANCES JULY 1, 2017	RECEIPTS	DISBURSE- MENTS	CASH BALANCES JUNE 30, 2018	RECEIVABLES JUNE 30, 2018	ACCOUNTS PAYABLE JUNE 30, 2018	DUE TO STUDENT GROUPS JUNE 30, 2018
General Fund	\$ 3,306	\$ 12,298	\$ 9,072	\$ 6,532	\$ -	\$ 100	\$ 6,432
Corporate Analysis Charge	-	1,625	1,625	-	-	-	-
Board Tuition	-	9,370	9,370	-	-	-	-
Athletic Vending	671	1,000	19	1,652	-	-	1,652
Concessions	8,776	65,287	62,524	11,539	-	68	11,471
Teacher's Lounge/Admin	1,897	3,299	4,363	833	-	139	694
Board Parking Pass	-	945	945	-	-	-	-
Board Band	-	22,674	22,674	-	-	-	-
Band Fundraising	4,066	37,630	38,749	2,947	-	-	2,947
AP Exam	139	15,567	12,955	2,751	-	-	2,751
Choir	216	7,811	7,871	156	-	-	156
Drama	10,164	13,433	12,822	10,775	-	-	10,775
Guidance	1,130	996	250	1,876	-	-	1,876
Special Education	811	135	44	902	-	-	902
Prom	3,367	6,605	2,934	7,038	-	-	7,038
Board Library	-	489	489	-	-	-	-
Nurse	1,101	159	1,260	-	-	-	-
Global Educ Tour Group	5	182	187	-	-	-	-
Board Textbook-L/D	-	291	291	-	-	-	-
Board Use of Building	-	5,562	5,562	-	708	-	708
Yearbook	31,447	3,894	288	35,053	-	-	35,053
Student Beverage-Vending	1,091	1,356	1,144	1,303	-	-	1,303
ROTC-Unit Funds	7,203	6,468	7,004	6,667	-	392	6,275
Board Instructional	-	11,802	11,802	-	-	-	-
Board Science Dept	-	1,918	1,918	-	-	-	-
Board Art	-	236	236	-	-	-	-
Art	457	449	380	526	-	-	526
Graduate Class	611	-	575	36	-	-	36
Transition	616	603	515	704	-	-	704
Key Club	603	5,694	5,972	325	-	-	325
Beta Club	1,054	1,135	1,650	539	-	-	539
FBLA	1,579	210	170	1,619	-	-	1,619
Vex Robotics Club	-	1,500	1,329	171	-	-	171
Nelson County ATC	-	1,800	1,285	515	-	-	515
FCCLA	-	7,765	7,071	694	-	-	694
FFA	5,234	39,804	40,593	4,445	-	410	4,035
STLP	5	206	-	211	-	-	211
Future Problem Solving	-	105	-	105	-	-	105
National Honor Society	-	2,718	2,492	226	-	-	226
Library Magazine	21	-	-	21	-	-	21
Student Council	3,009	3,398	4,758	1,649	-	-	1,649
FFA-Schol-Truck Ticket	2,150	-	2,150	-	-	-	-
Academic Team	400	683	814	269	-	-	269
FCA	814	-	-	814	-	-	814
FFA- Region Lincoln Trail	113	4,733	3,402	1,444	-	-	1,444
Board Food Science	-	100	100	-	-	-	-
Girls Golf	673	7,293	4,902	3,064	-	2,875	189
Girls Soccer	3,600	17,983	11,802	9,781	-	7,360	2,421
Athletic	20,941	89,074	90,835	19,180	-	7,983	11,197
Boy's Basketball	2,722	19,697	22,004	415	-	-	415
Turf Replacement Fund	65,722	45,019	-	110,741	-	-	110,741
Track/Cross Country	6,350	12,631	16,241	2,740	-	418	2,322
Pep Club/The End Zone	228	870	518	580	-	-	580
Boy's Soccer	2,094	4,436	3,581	2,949	-	2,400	549
Dance Team	1,209	-	-	1,209	-	-	1,209
Archery	4,397	16,804	12,417	8,784	-	250	8,534
Tennis	338	1,418	1,609	147	-	-	147
Baseball	3,788	14,420	17,035	1,173	-	63	1,110
Girls Softball	3,913	938	2,109	2,742	-	350	2,392
Volleyball	2,856	6,348	7,050	2,154	-	-	2,154
Boy's Golf	1,374	-	782	592	-	-	592
Swim Team	1,665	1,872	358	3,179	-	-	3,179
Cheerleaders	2,561	4,341	6,133	769	-	300	469
Bowling	1,020	2,955	3,300	675	-	-	675
Lady Cards Basketball	4,912	15,692	19,643	961	-	-	961
Wrestling	1,488	1,711	2,161	1,038	-	-	1,038
Football	2,052	8,845	7,309	3,588	-	2,706	882
N.C. Elem Boys Bsktbl	20,027	29,892	49,085	834	-	-	834
Board Project Graduation	-	2,600	2,600	-	-	-	-
Project Graduation	1,044	22,467	20,349	3,162	-	2,430	732
FFA Alumni	3,103	5,951	767	8,287	-	-	8,287
Sub total	250,133	635,192	592,244	293,081	708	28,244	265,545
Transfers	-	68,094	68,094	-	-	-	-
TOTALS	\$ 250,133	\$ 567,098	\$ 524,150	\$ 293,081	\$ 708	\$ 28,244	\$ 265,545

See accompanying independent auditor's report.

# NELSON COUNTY SCHOOL DISTRICT

## SCHEDULE OF ASSETS, RECEIPTS, DISBURSEMENTS, AND LIABILITIES – THOMAS NELSON HIGH SCHOOL

AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

NAME OF ACTIVITY	CASH BALANCES JULY 1, 2017	RECEIPTS	DISBURSE- MENTS	CASH BALANCES JUNE 30, 2018	RECEIVABLES JUNE 30, 2018	ACCOUNTS PAYABLE JUNE 30, 2018	DUE TO STUDENT GROUPS JUNE 30, 2018
General	\$ 5	\$ 107,016	\$ 104,253	\$ 2,768	\$ -	\$ 245	\$ 2,523
Board Account	-	29,622	29,622	-	-	-	-
Board - Project Liftoff	-	23,575	23,575	-	-	-	-
Laying the Foundation	322	500	-	822	-	-	822
Tuition	-	90	90	-	-	-	-
KYA	3	784	-	787	-	-	787
SEA	492	-	-	492	-	-	492
SOC	2,304	7,367	8,077	1,594	-	143	1,451
Concessions	10,281	37,953	41,536	6,698	-	1,800	4,898
Concession Equipment	6,853	-	2,946	3,907	-	-	3,907
Athletics	1,531	68,658	60,763	9,426	-	2,348	7,078
Staff Vending	232	3,276	3,138	370	-	-	370
Pep Club	1,263	-	1,263	-	-	-	-
Leadership Dynamics	2,877	-	500	2,377	-	-	2,377
STLP	8	-	-	8	-	-	8
FBLA	474	-	-	474	-	-	474
FCA	252	-	-	252	-	-	252
Key Club	3,675	1,089	511	4,253	-	-	4,253
VAPA	207	-	-	207	-	-	207
Beta Club	3,090	9,400	10,539	1,951	-	-	1,951
tCOY	3	-	-	3	-	-	3
Science/Engineering Club	290	-	-	290	-	-	290
Academic Team/FPS	-	2,948	1,281	1,667	-	-	1,667
Football	10,067	17,554	21,926	5,695	-	-	5,695
Volleyball	949	19,715	18,543	2,121	-	2,778	(657)
Boys Basketball	368	17,160	11,493	6,035	-	297	5,738
Boy's Soccer	1,963	4,084	3,015	3,032	-	-	3,032
Girl's Soccer	6,865	7,356	11,978	2,243	-	-	2,243
Boys' Golf	512	400	131	781	-	-	781
Girls' Golf	-	1,650	793	857	-	60	797
Bowling	180	2,607	2,775	12	-	115	(103)
Cross Country	165	7,525	7,374	316	-	221	95
Baseball	773	2,813	2,669	917	-	-	917
Wrestling	652	941	735	858	-	-	858
Girls Basketball	11,871	19,649	17,863	13,657	-	309	13,348
Archery	6,407	6,081	9,533	2,955	-	-	2,955
Girl's Softball	3,288	4,384	6,284	1,388	-	627	761
Bass Fishing	-	1,414	995	419	-	-	419
Swim Team	34	2,376	1,676	734	-	-	734
Cheerleading	3,050	10,383	11,297	2,136	-	-	2,136
Tennis	123	1,953	1,891	185	-	-	185
Dance Team	545	226	771	-	-	-	-
Band	1,596	9,050	8,172	2,474	-	-	2,474
Choir	-	1,086	9	1,077	-	-	1,077
Drama	2,072	3,041	4,069	1,044	-	-	1,044
FFA	1,501	11,349	12,663	187	-	-	187
Corn Maze	6,587	14,828	13,744	7,671	-	153	7,518
FFA Alumni	3,631	2,815	825	5,621	-	-	5,621
Farm Bureau FFA	581	1,150	1,590	141	-	-	141
AP Test	1,160	18,287	18,019	1,428	-	-	1,428
Project Liftoff	3,040	15,071	17,824	287	-	-	287
Prom	10,666	7,550	6,987	11,229	-	-	11,229
Library	517	-	49	468	-	-	468
Yearbook	16,723	1,383	615	17,491	-	-	17,491
Art	559	50	45	564	-	-	564
Physical Ed	114	-	-	114	-	-	114
National Honor Society	1,019	1,007	1,342	684	-	-	684
Lafayette House	-	996	916	80	-	-	80
Hamilton House	-	1,265	1,214	51	-	-	51
Lincoln House	-	338	270	68	-	-	68
Washington House	-	571	361	210	-	-	210
Sub total	131,740	510,386	508,550	133,576	-	9,096	124,480
Transfers	-	36,280	36,280	-	-	-	-
TOTALS	\$ 131,740	\$ 474,106	\$ 472,270	\$ 133,576	\$ -	\$ 9,096	\$ 124,480

See accompanying independent auditor's report.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

# NELSON COUNTY SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR'S IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster -			
Cash Assistance			
Passed Through State Department of Education			
School Breakfast Program	10.553	7760005-17	\$ 84,519
		7760005-18	332,082
National School Lunch Program	10.555	7760005-17	236,746
		7760005-18	910,765
Summer Food Service Program for Children	10.559	7690024-17	12,908
		7740023-18	20,469
Non-Cash Assistance (Commodities)			
National School Lunch Program	10.555	4003164	172,173
TOTAL U.S. DEPT. OF AGRICULTURE			1,769,662
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Special Education Cluster (IDEA) -			
Passed Through State Department of Education			
Special Education - Grants to States	84.027	337C	276,856
		337CP	34,691
		337D	717,784
		337DP	11,828
Special Education - Preschool Grants	84.173	343C	10,862
		343D	30,294
		343CP	5,011
		343DP	7,151
			1,094,477
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Passed Through State Department of Education			
Title I Grants to Local Educational Agencies	84.010	310BM	7,961
		310C	254,964
		310CM	8,200
		310CP	19,540
		310D	514,955
		310DM	3,036
		310DN	12,893
		310DP	579
			822,128
Vocational Education - Basic Grants to States	84.048	348D	23,527
		348BA	558
		348C	5,638
			29,723
Title III - Limited English Proficiency	84.365	345D	1,400
Improving Teacher Quality - State Grants	84.367	401B	5,117
		401CP	11,085
		401D	147,461
		401DP	8,182
		401C	9,642
			181,487
TOTAL U.S. DEPARTMENT OF EDUCATION			2,129,215
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,898,877

See accompanying independent auditor's report and  
notes to the schedule of expenditures of federal awards

## **NELSON COUNTY SCHOOL DISTRICT**

### **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

JUNE 30, 2018

#### **NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Nelson County School District under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Nelson County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of Nelson County School District.

#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

#### **NOTE 3 – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities received.

#### **NOTE 4 – INDIRECT COST RATE**

The District has elected to not use the 10 percent de minimum indirect cost rate allowed under the Uniform Guidance.

#### **NOTE 5 – SUBRECIPIENTS**

There were no subrecipients during the fiscal year.

# NELSON COUNTY SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2018

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### Section I – Summary of Auditor's Results

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#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiencies(s) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

#### Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiencies(s) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)? ☐ yes ☒ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010

**Title I**

84.027 / 84.173

**Special Education Cluster**

**NELSON COUNTY SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2018**

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**Section I – Summary of Auditor's Results – Continued**

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Dollar threshold used to distinguish  
Between type A and type B programs:           \$ 750,000

Auditee qualified as low-risk auditee?           \_\_\_\_\_ yes                             X   no

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**Section II – Financial Statement Findings**

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No findings to report.

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**Section III – Federal Award Findings and Questioned Costs**

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No findings to report.

## **NELSON COUNTY SCHOOL DISTRICT**

### **SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**JUNE 30, 2018**

**2017-001 – Child Nutrition Cluster – CFDA No. 10.553 School Breakfast Program, 10.555 National School Lunch Program, and 10.559 Summer Food Service Program for Children; – Year Ended June 30, 2017 – U. S. Department of Agriculture; passes through the Kentucky Department of Education**

#### **Significant Deficiency – Procurement**

*Condition* The District's policies and procedures were in accordance with state requirements but did not include the required federal requirements regarding procurement.

*Current Status:* The District implemented revised procurement procedures effective July 1, 2017.



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**INDEPENDENT AUDITOR'S 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**

Kentucky State Committee for School District Audits and  
Members of the Board of Education  
Nelson County School District  
Bardstown, Kentucky

We have audited, in accordance with the 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 requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Nelson County School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Nelson County School District's basic financial statements, and have issued our report thereon dated November 7, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Nelson County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Nelson County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District'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*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We also noted certain other matters that we reported to management of Nelson County School District in a separate letter dated November 7, 2018.

### **Purpose of this Report**

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

*Stiles, Carter & Associates, CPAs, P.S.C.*

Stiles, Carter & Associates, CPAs, P.S.C.  
Bardstown, Kentucky  
November 7, 2018



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Kentucky State Committee for School District Audits and  
Members of the Board of Education  
Nelson County School District  
Bardstown, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited the Nelson County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The Nelson County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Nelson County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, III, and IV of the Independent Auditor's Contract. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Nelson County School District's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Nelson County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

## Report on Internal Control Over Compliance

The management of Nelson County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Nelson County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Nelson County School District's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Stiles, Carter & Associates, CPAs, P.S.C.*

Stiles, Carter & Associates, CPAs, P.S.C.  
Bardstown, Kentucky  
November 7, 2018