

NELSON COUNTY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2014

NELSON COUNTY SCHOOL DISTRICT

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NELSON COUNTY SCHOOL DISTRICT

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REPORT OF INDEPENDENT AUDITORS

Members of the Board of Education
Nelson County School District
Bardstown, Kentucky 40004

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, 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirement, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the 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 of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial 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, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 – 10 and 45 – 46 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirement*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, we have also issued our report dated November 10, 2014, on our consideration of the 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 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 the District's internal control over financial reporting and compliance.



Bardstown, Kentucky
November 10, 2014

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2014

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, 2014. 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 was \$6.522 million.
- Local tax levied at the three percent rate increase of 69.0 cents per \$100 for real estate and tangible property. No change in the motor vehicle tax at 54.8 cents per \$100 of assessed property.
- From fiscal year 2013 to 2014, total revenues from governmental activities increased approximately \$383,000 primarily due to increased tax revenues that offset a decrease in state grant revenues.
- The district adopted a budget in May 2014 for the upcoming year with \$1.82 million in contingency (4.8% of total budgeted expenditures).
- The District refunded approximately \$18.6 million by issuing \$18.77 million in 2014 Series Refunding bonds. The refunding is expected to decrease total future debt service payments by approximately \$601,000.

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

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2014

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.

The government-wide financial statements can be found on pages 11 through 12 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 day 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 13 through 21 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 exceeded liabilities by approximately \$33.2 million as of June 30, 2014.

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 – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2014

Net Position

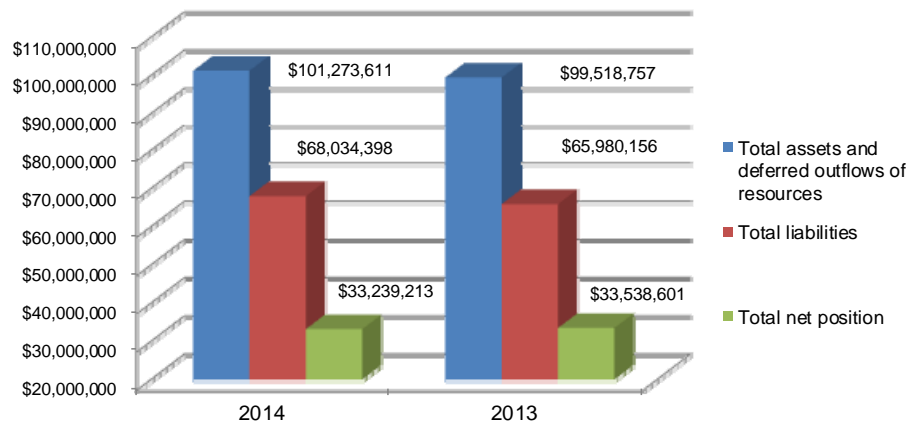
The 2014 Government-wide net position compared to 2013 is as follows:

**Net Position
(Table 1)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 6,809,428	\$ 3,137,200	\$ 841,239	\$ 844,190	\$ 7,650,667	\$ 3,981,390
Capital assets	91,929,338	94,662,267	820,570	875,100	92,749,908	95,537,367
Total assets	98,738,766	97,799,467	1,661,809	1,719,290	100,400,575	99,518,757
Deferred outflows of resources:						
Deferred amount on refunding	873,036	-	-	-	873,036	-
Total assets and deferred outflows of resources	<u>\$ 99,611,802</u>	<u>\$ 97,799,467</u>	<u>\$ 1,661,809</u>	<u>\$ 1,719,290</u>	<u>\$ 101,273,611</u>	<u>\$ 99,518,757</u>
Long-term debt	63,202,907	62,146,789	-	-	63,202,907	62,146,789
Other liabilities	4,829,393	3,833,367	2,098	-	4,831,491	3,833,367
Total liabilities	<u>\$ 68,032,300</u>	<u>\$ 65,980,156</u>	<u>\$ 2,098</u>	<u>\$ -</u>	<u>\$ 68,034,398</u>	<u>\$ 65,980,156</u>
Net position:						
Invested in capital assets net of related debt	25,949,201	30,246,923	820,570	875,100	26,769,771	31,122,023
Restricted	2,938,341	-	-	-	2,938,341	-
Unrestricted	2,691,960	1,572,388	839,141	844,190	3,531,101	2,416,578
Total net position	<u>\$ 31,579,502</u>	<u>\$ 31,819,311</u>	<u>\$ 1,659,711</u>	<u>\$ 1,719,290</u>	<u>\$ 33,239,213</u>	<u>\$ 33,538,601</u>

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

- Capital assets decreased approximately \$2.7 million due to current year depreciation of \$3.6 million offset by FY2014 additions approximately \$887,000 primarily as a result of construction costs related to Energy Conservation Projects for two schools and related improvements and, new computers and network equipment.
- Total long-term obligations increased approximately \$880,600 as a result of \$3.42 million in Energy Conservation Project bonds being issued in fiscal year 2014 and scheduled bond principal reductions of approximately \$2.6 million. Also, the District recorded a claim for approximately \$160,000 related to outstanding claims and deficits of the Kentucky School Boards Insurance Trust (KSBIT).



NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2014

Change in Net Position

The following Table 2 presents the summary of changes in net position for the fiscal years ending June 30, 2014 and 2013.

Changes in Net Position
(Table 2)

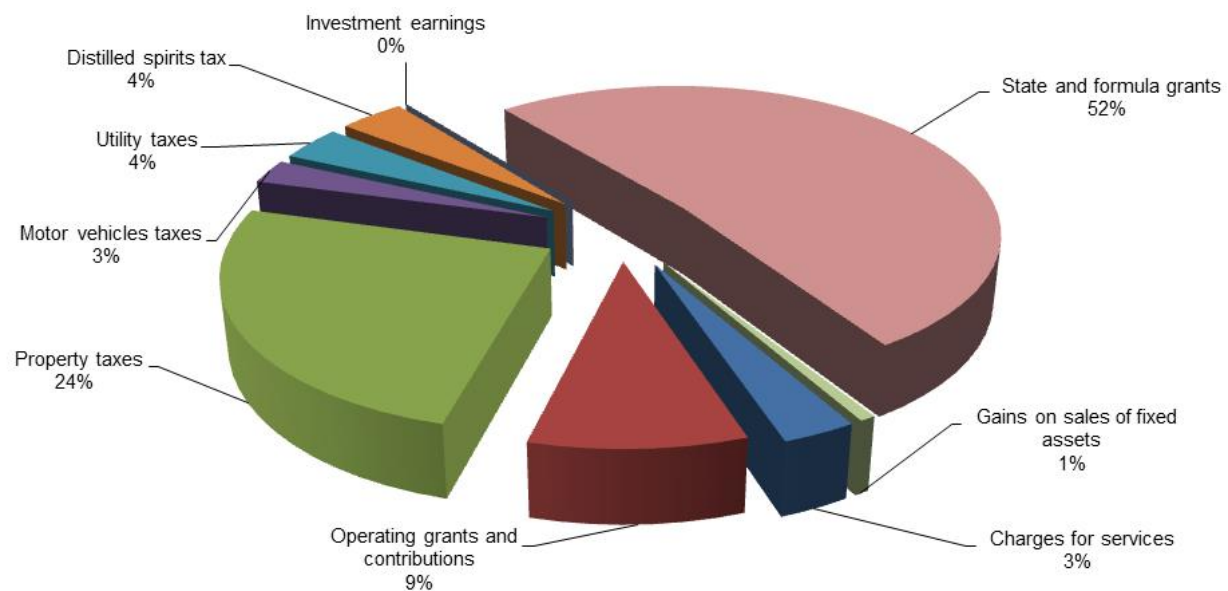
	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program Revenues						
Charges for services	\$ 99,261	\$ 34,454	\$ 1,367,497	\$ 1,350,141	\$ 1,466,758	\$ 1,384,595
Operating grants and contributions	2,303,300	2,263,576	1,983,821	2,056,191	4,287,121	4,319,767
Capital grants and contributions	886,002	1,367,213	-	-	886,002	1,367,213
General Revenues						
Property taxes	11,735,743	11,143,592	-	-	11,735,743	11,143,592
Motor vehicle taxes	1,202,248	1,154,044	-	-	1,202,248	1,154,044
Utility taxes	1,731,690	1,691,531	-	-	1,731,690	1,691,531
Distilled spirits tax	1,808,683	1,523,044	-	-	1,808,683	1,523,044
Investment earnings	375	3,764	-	-	375	3,764
State aid formula grants	24,075,133	24,330,542	-	-	24,075,133	24,330,542
Gain (loss) on sale of equipment	7,269	42,055	492	(1,707)	7,761	40,348
Miscellaneous	321,038	233,790	-	-	321,038	233,790
Total revenues	44,170,742	43,787,605	3,351,810	3,404,625	47,522,552	47,192,230
EXPENSES						
Program Activities						
Instruction	24,534,649	24,146,475	-	-	24,534,649	24,146,475
Student support	2,004,615	1,676,188	-	-	2,004,615	1,676,188
Instruction staff support	1,648,201	1,871,223	-	-	1,648,201	1,871,223
District administration support	1,378,217	1,014,118	-	-	1,378,217	1,014,118
School administrative support	2,850,820	2,680,773	-	-	2,850,820	2,680,773
Business support	1,287,820	1,759,856	-	-	1,287,820	1,759,856
Plant operation and maintenance	4,355,079	4,708,642	-	-	4,355,079	4,708,642
Student transportation	3,322,030	3,300,211	-	-	3,322,030	3,300,211
Community service activities	334,731	333,740	-	-	334,731	333,740
Interest on long-term debt	2,306,261	2,972,796	-	-	2,306,261	2,972,796
Business-type Activities						
Food service	-	-	2,830,895	3,071,159	2,830,895	3,071,159
Child care	-	-	580,494	484,965	580,494	484,965
Total expenses	44,022,423	44,464,022	3,411,389	3,556,124	47,433,812	48,020,146
Transfers	-	100,000	-	(100,000)	-	-
CHANGE IN NET POSITION	\$ 148,319	\$ (576,417)	\$ (59,579)	\$ (251,499)	\$ 88,740	\$ (827,916)

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

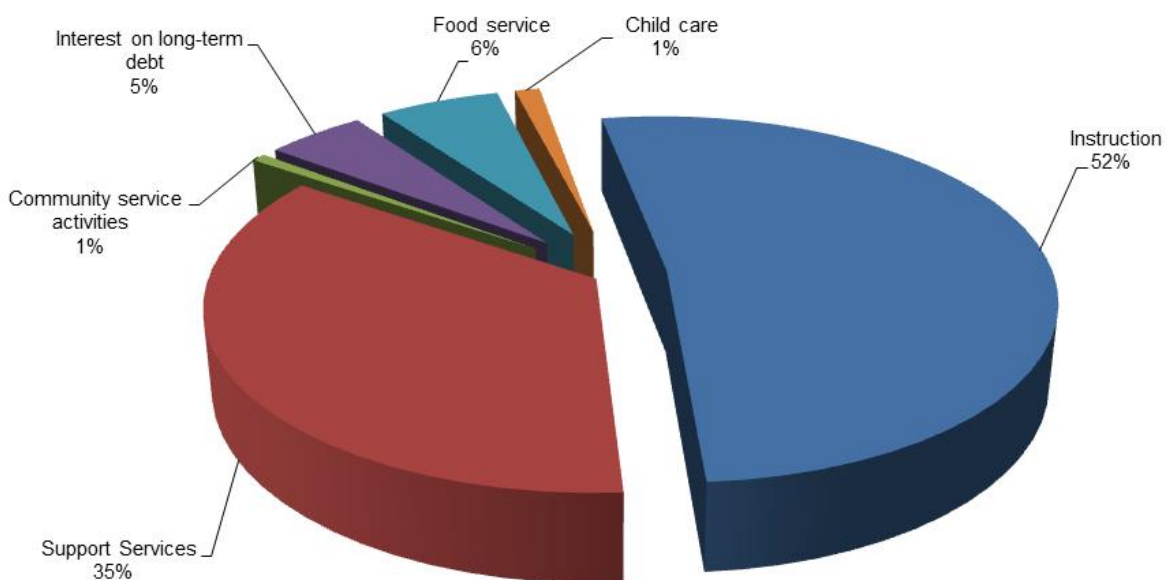
- Total revenues increased approximately \$330,000 primarily due to increases in property and distilled spirit taxes (approximately \$878,000 combined increase) offset by reductions in SEEK funding of approximately \$255,000 and capital grants and contributions of approximately \$481,000.
- Total expenses decreased approximately \$442,000 as a result of a decrease in interest expense of approximately \$667,000.

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2014

The following provides a breakdown of total primary government revenues for the year ending June 30, 2014:



The following provides a breakdown of total primary government expenses for the year ending June 30, 2014:



NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2014

Capital Assets

At the end of fiscal year 2014, the School District had approximately \$92.7 million invested in land, building and improvements, vehicles, equipment, and construction in process. Table 3 shows fiscal year 2014 and 2013 balances.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 2,921,133	\$ 2,921,133	\$ -	\$ -	\$ 2,921,133	\$ 2,921,133
Buildings and improvements	85,813,067	88,717,548	-	-	85,813,067	88,717,548
Technology Equipment	484,497	454,886	7,126	10,462	491,623	465,348
Vehicles	1,542,795	1,881,004	-	-	1,542,795	1,881,004
General equipment	812,518	687,696	813,444	864,638	1,625,962	1,552,334
Total	<u>91,574,010</u>	<u>94,662,267</u>	<u>820,570</u>	<u>875,100</u>	<u>92,394,580</u>	<u>95,537,367</u>
Construction in process	<u>355,328</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>355,328</u>	<u>-</u>
Total	<u>\$ 91,929,338</u>	<u>\$ 94,662,267</u>	<u>\$ 820,570</u>	<u>\$ 875,100</u>	<u>\$ 92,749,908</u>	<u>\$ 95,537,367</u>

The following were major additions and capital assets placed in service during fiscal year 2014:

Construction in process for energy efficient improvements	\$ <u>355,328</u>
Computer and Network Peripherals	\$ <u>213,948</u>

Debt

At June 30, 2014, the School District had \$66,745,000 in bonds outstanding. Of this amount, \$7,799,568 is to be paid by the Kentucky School Facility Construction Commission. A total of \$3,360,000 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.

For the General Fund, revenues were budgeted at approximately \$34.6 million with actual amounts of approximately \$35.0 million. Budgeted expenditures of approximately \$34.2 million compare with actual expenditures of approximately \$34.6 million. The most significant fluctuation is for plant operation and maintenance expenditures for capital items that exceeded budget by approximately \$522,000.

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 22-44 of this report.

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2014

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 2013-2014 with a contingency that exceeded the 2% minimum. The District has adopted a budget for 2014-2015 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 Tim Hockensmith, Director of Administrative Services, 288 Wildcat Lane, Bardstown, Kentucky, 40004, (502) 349-7000.

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 5,758,418	\$ 763,815	\$ 6,522,233
Inventory	-	77,424	77,424
Accounts receivable:			
Taxes - current	107,914	-	107,914
Taxes - delinquent	14,514	-	14,514
Intergovernmental - State	252,692	-	252,692
Intergovernmental - Indirect Federal	675,890	-	675,890
Investments	-	-	-
Total current assets	6,809,428	841,239	7,650,667
<u>Capital Assets, Net</u>			
Capital assets, net	91,929,338	820,570	92,749,908
<u>Deferred Outflows of Resources</u>			
Deferred amount on refunding	873,036	-	873,036
Total Assets and Deferred Outflows of Resources	\$ 99,611,802	\$ 1,661,809	\$ 101,273,611
Liabilities & Net Position			
<u>Current Liabilities</u>			
Accounts payable	\$ 259,455	\$ 2,098	\$ 261,553
Accrued salaries and benefits payable	592,728	-	592,728
Deferred revenue	150,068	-	150,068
Interest payable	311,432	-	311,432
Current portion of bond obligations	3,360,000	-	3,360,000
Current portion of claims payable - KSBIT	40,072	-	40,072
Current portion of accrued sick leave	115,638	-	115,638
Total Current Liabilities	4,829,393	2,098	4,831,491
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	63,385,000	-	63,385,000
Less: bond discount	(764,863)	-	(764,863)
Noncurrent portion of claims payable - KSBIT	120,216	-	120,216
Noncurrent portion of accrued sick leave	462,554	-	462,554
Total Noncurrent Liabilities	63,202,907	-	63,202,907
Total Liabilities	68,032,300	2,098	68,034,398
<u>Net Position</u>			
Net investment in capital assets	25,949,201	820,570	26,769,771
Restricted for:			
Construction	2,938,341	-	2,938,341
Unrestricted	2,691,960	839,141	3,531,101
Total Net Position	\$ 31,579,502	\$ 1,659,711	\$ 33,239,213

See accompanying report of independent auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

FUNCTIONS / PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue And Changes In Net Position		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 24,534,649	\$ 76,461	\$ 2,203,546	\$ -	\$ (22,254,642)	\$ -	\$ (22,254,642)
Support Services:							
Student	2,004,615	-	-	-	(2,004,615)	-	(2,004,615)
Instruction staff	1,648,201	-	-	-	(1,648,201)	-	(1,648,201)
District administration	1,378,217	-	-	-	(1,378,217)	-	(1,378,217)
School administrative	2,850,820	-	-	-	(2,850,820)	-	(2,850,820)
Business	1,287,820	-	-	-	(1,287,820)	-	(1,287,820)
Plant operation and maintenance	4,355,079	-	-	-	(4,355,079)	-	(4,355,079)
Student transportation	3,322,030	22,800	99,754	-	(3,199,476)	-	(3,199,476)
Community service activities	334,731	-	-	-	(334,731)	-	(334,731)
Interest on long-term debt	2,306,261	-	-	886,002	(1,420,259)	-	(1,420,259)
Total Governmental Activities	44,022,423	99,261	2,303,300	886,002	(40,733,860)	-	(40,733,860)
Business-Type Activities:							
Food service	2,830,895	886,915	1,890,572	-	-	(53,408)	(53,408)
Child care	580,494	480,582	93,249	-	-	(6,663)	(6,663)
Total Business-Type Activities	3,411,389	1,367,497	1,983,821	-	-	(60,071)	(60,071)
Total Primary Government	\$ 47,433,812	\$ 1,466,758	\$ 4,287,121	\$ 886,002	(40,733,860)	(60,071)	(40,793,931)
General revenues:							
Taxes:							
Property taxes					11,735,743	-	11,735,743
Motor vehicles taxes					1,202,248	-	1,202,248
Utility taxes					1,731,690	-	1,731,690
Distilled spirits tax					1,808,683	-	1,808,683
Investment earnings					375	-	375
State aid formula grants					24,075,133	-	24,075,133
Gain (loss) on sale of equipment					7,269	492	7,761
Miscellaneous					321,038	-	321,038
Total general revenues					40,882,179	492	40,882,671
Transfers					-	-	-
Change In Net Position					148,319	(59,579)	88,740
Net Position - Beginning (restated)					31,431,183	1,719,290	33,150,473
Net Position - Ending					\$ 31,579,502	\$ 1,659,711	\$ 33,239,213

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2014

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 3,337,999	\$ -	\$ 2,939,340	\$ -	\$ 6,277,339
Accounts receivable	375,120	675,890	-	-	1,051,010
Investments	-	-	-	-	-
Total assets	<u>\$ 3,713,119</u>	<u>\$ 675,890</u>	<u>\$ 2,939,340</u>	<u>\$ -</u>	<u>\$ 7,328,349</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 251,555	\$ 6,899	\$ 999	\$ -	\$ 259,453
Cash overdraft	-	518,922	-	-	518,922
Accrued liabilities	592,728	-	-	-	592,728
Current portion of claims payable - KSBIT	40,072	-	-	-	40,072
Deferred revenue	-	150,069	-	-	150,069
Total liabilities	<u>884,355</u>	<u>675,890</u>	<u>999</u>	<u>-</u>	<u>1,561,244</u>
Fund Balances:					
Restricted	-	-	2,938,341	-	2,938,341
Committed	1,270,756	-	-	-	1,270,756
Assigned	23,371	-	-	-	23,371
Unrestricted	1,534,637	-	-	-	1,534,637
Total Fund Balances	<u>2,828,764</u>	<u>-</u>	<u>2,938,341</u>	<u>-</u>	<u>5,767,105</u>
Total liabilities and fund balances	<u>\$ 3,713,119</u>	<u>\$ 675,890</u>	<u>\$ 2,939,340</u>	<u>\$ -</u>	<u>\$ 7,328,349</u>

See accompanying report of independent auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT

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

JUNE 30, 2014

Total fund balance per fund financial statements	\$ 5,767,105
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.	91,929,338
Certain liabilities and deferred outflows of resources are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.	
Bonds payable	(66,745,000)
Bond discount - unamortized	764,863
Deferred amount on refunding	873,036
Interest payable	(311,432)
Claims payable - KSBIT (noncurrent)	(120,216)
Accrued sick leave	(578,192)
Net position for governmental activities	<u>\$ 31,579,502</u>

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

	General	Special	Construction	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 8,485,743	\$ -	\$ -	\$ 3,250,000	\$ 11,735,743
Motor vehicle	1,202,248	-	-	-	1,202,248
Utilities	1,731,690	-	-	-	1,731,690
Distilled spirits tax	1,808,683	-	-	-	1,808,683
Tuition and fees	3,058	73,403	-	-	76,461
Earnings on investments	375	-	-	-	375
Other local revenues	283,293	180,130	-	-	463,423
Intergovernmental - state	21,531,351	1,252,368	-	2,198,934	24,982,653
Intergovernmental - indirect federal	-	2,162,194	-	-	2,162,194
Intergovernmental - direct federal	-	-	-	-	-
Total revenues	<u>35,046,441</u>	<u>3,668,095</u>	<u>-</u>	<u>5,448,934</u>	<u>44,163,470</u>
Expenditures:					
Instruction	19,401,243	2,441,628	-	-	21,842,871
Support services:					
Student	1,503,445	400,732	-	-	1,904,177
Instruction staff	1,469,949	131,805	-	-	1,601,754
District administration	1,200,477	-	-	-	1,200,477
School administrative	2,836,614	-	-	-	2,836,614
Business	1,448,777	50,685	-	-	1,499,462
Plant operation and maintenance	4,146,157	15,933	-	-	4,162,090
Student transportation	2,609,347	376,549	-	-	2,985,896
Facilities acquisition and maintenance	-	-	492,347	-	492,347
Community service activities	812	333,920	-	-	334,732
Debt service	-	-	36,280	5,439,411	5,475,691
Total Expenditures	<u>34,616,821</u>	<u>3,751,252</u>	<u>528,627</u>	<u>5,439,411</u>	<u>44,336,111</u>
Excess (deficit) of revenues over expenditures	<u>429,620</u>	<u>(83,157)</u>	<u>(528,627)</u>	<u>9,523</u>	<u>(172,641)</u>
Other financing sources (uses)					
Proceeds from sale of bonds	-	-	3,357,196	18,541,849	21,899,045
Payment to refund bond escrow agent	-	-	-	(18,441,600)	(18,441,600)
Proceeds from sale of fixed assets	9,970	-	-	-	9,970
Operating transfers in	-	83,157	109,772	4,453,160	4,646,089
Operating transfers out	(83,157)	-	-	(4,562,932)	(4,646,089)
Total other financing sources (uses)	<u>(73,187)</u>	<u>83,157</u>	<u>3,466,968</u>	<u>(9,523)</u>	<u>3,467,415</u>
Net change in fund balances	<u>356,433</u>	<u>-</u>	<u>2,938,341</u>	<u>-</u>	<u>3,294,774</u>
Fund balance, July 1, 2013	<u>2,472,331</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,472,331</u>
Fund balance, June 30, 2014	<u>\$ 2,828,764</u>	<u>\$ -</u>	<u>\$ 2,938,341</u>	<u>\$ -</u>	<u>\$ 5,767,105</u>

See accompanying report of independent auditors and notes to financial 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, 2014

Net change in total fund balances per fund financial statements		\$	3,294,774
Amounts reported for governmental activities in the statement of activities are different because of the following:			
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 depreciation expense exceeds capital outlays for the year.			(2,730,229)
Bond proceeds are reported as revenues in this fund statement because it creates current financial resources, but they are separated and shown as long-term debt on the statement of net position.			(3,357,196)
Debt service payments are reported as expenditures in this fund financial statement because they use current financial resources, but they are separated and shown as payments of long-term debt on the statement of net position and interest expense on the statement of activities. The difference is the amount of principal payment made for the year.			3,280,000
In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.			(2,700)
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.			
Accrued interest	\$	15,615	
Sick leave		(5,296)	
Claims payable - KSBIT (noncurrent)		(120,216)	
Amortization of bond discount and deferred outflows		(126,185)	
Debt issue costs		(100,248)	(336,330)
Change in net position of governmental activities		\$	<u>148,319</u>

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT**STATEMENT OF NET POSITION****PROPRIETARY FUNDS**

JUNE 30, 2014

	Food Service Fund	Child Care Fund	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 523,047	\$ 240,768	\$ 763,815
Inventory	77,424	-	77,424
Total current assets	600,471	240,768	841,239
<u>Capital Assets, Net</u>			
Capital assets, net	820,570	-	820,570
Total assets	<u>\$ 1,421,041</u>	<u>\$ 240,768</u>	<u>\$ 1,661,809</u>
Liabilities & Net Position			
<u>Current Liabilities</u>			
Accounts payable	\$ 376	\$ 1,722	\$ 2,098
Due to other funds	-	-	-
Total current liabilities	376	1,722	2,098
<u>Net Position</u>			
Net investment in capital assets	820,570	-	820,570
Unrestricted	600,095	239,046	839,141
Total net position	<u>\$ 1,420,665</u>	<u>\$ 239,046</u>	<u>\$ 1,659,711</u>

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION****PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2014

	Food Service Fund	Child Care Fund	Total
Operating revenues:			
Lunchroom sales	\$ 886,915	\$ -	\$ 886,915
Tuition and fees	-	480,582	480,582
Other operating revenues	-	-	-
Total operating revenues	886,915	480,582	1,367,497
Operating expenses:			
Salaries and wages	1,483,835	524,388	2,008,223
Materials and supplies	1,161,718	43,990	1,205,708
Depreciation	122,887	-	122,887
Other operating expenses	62,455	12,116	74,571
Total operating expenses	2,830,895	580,494	3,411,389
Income (loss) from operations	(1,943,980)	(99,912)	(2,043,892)
Non-operating revenues (expenses):			
Federal grants	1,449,284	-	1,449,284
State grants	279,196	93,249	372,445
Donated commodities	162,092	-	162,092
Fund transfers	-	-	-
Loss on sale of equipment	492	-	492
Interest income	-	-	-
Total non-operating revenues (expenses)	1,891,064	93,249	1,984,313
Change in net position	(52,916)	(6,663)	(59,579)
Net position, July 1, 2013	1,473,581	245,709	1,719,290
Net position, June 30, 2014	\$ 1,420,665	\$ 239,046	\$ 1,659,711

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

	Food Service Fund	Child Care Fund	Total
Cash Flows From Operating Activities			
Cash received from:			
Lunchroom sales	\$ 886,915	\$ -	\$ 886,915
Tuition and fees	-	480,582	480,582
Cash paid to / for:			
Employees	(1,229,594)	(431,139)	(1,660,733)
Supplies	(1,010,684)	(42,268)	(1,052,952)
Other activities	(62,455)	(12,116)	(74,571)
Net cash provided by (used in) operating activities	(1,415,818)	(4,941)	(1,420,759)
Cash Flows From Non-Capital Financing Activities			
Federal grants	1,636,429	-	1,636,429
State grants	24,955	-	24,955
Transfers from (to) other funds	-	-	-
Net cash provided by (used in) non-capital financing activities	1,661,384	-	1,661,384
Cash Flows From Capital & Related Financing Activities			
Purchases of capital assets	(68,356)	-	(68,356)
Net Cash Provided by (use in) capital & related financing activities	(68,356)	-	(68,356)
Cash Flows From Investing Activities			
Sale Of Assets	492	-	492
Net Cash Provided by Investing Activities	492	-	492
Net increase (decrease) in cash and cash equivalents	177,702	(4,941)	172,761
Balances, beginning of year	345,345	245,709	591,054
Balances, end of year	\$ 523,047	\$ 240,768	\$ 763,815
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income	\$ (1,943,980)	\$ (99,912)	\$ (2,043,892)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	122,887	-	122,887
Donated commodities	162,092	-	162,092
State on-behalf payments	254,241	93,249	347,490
Change in assets and liabilities:			
Inventory	(11,434)	-	(11,434)
Accounts payable	376	1,722	2,098
Net cash provided by (used in) operating activities	\$ (1,415,818)	\$ (4,941)	\$ (1,420,759)

See accompanying report of independent auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2014

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 717,251
Accounts receivable	-	-
Total Assets	<u>\$ -</u>	<u>\$ 717,251</u>
Liabilities		
Accounts payable	\$ -	\$ -
Due to student groups	-	717,251
Total Liabilities	<u>-</u>	<u>717,251</u>
Net Position Held In Trust	<u>\$ -</u>	<u>\$ -</u>

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT

STATEMENT CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

	Private Purpose Trust Funds
Additions	
Contributions to Education Foundation	<u>\$ 39,827</u>
Deductions	
Expenses paid	30,410
Transfers out to Education Foundation	<u>78,604</u>
Total deductions	<u>109,014</u>
Change In Net Position	(69,187)
Net Position, Beginning Of Year	<u>69,187</u>
Net Position, End Of Year	<u><u>\$ -</u></u>

See accompanying report of independent
auditors and notes to financial statements.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE A – 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 a prior year 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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

The District applies all Governmental Accounting Standards Boards ("GASB") pronouncements to proprietary funds as well as the Accounting Principles Board and Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 pages 55 – 56. This is a major fund of the District.
- 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) 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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.
- 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.
- III. Fiduciary Fund Type (Agency and Private Purpose Trust 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.
 - B. The Private Purpose Trust fund is used to report trust arrangements under which the income benefits individuals, private organizations or other governments.

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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$0.69 per \$100 valuation for real property, \$0.69 per \$100 valuation for business personal property and \$0.548 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, cablevision services, electric power, water, and natural, artificial and mixed gas.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. 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, 2014

NOTE A – 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. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. 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.

Cash and Cash Equivalents

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

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, 2014 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, 2014

NOTE A – 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.

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.
- *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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 assets and liabilities. 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE B – 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.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's cash and cash equivalents was \$9,922,054. \$250,000 of bank account balances per separate banks is covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Breakdown per financial statements:

Governmental Funds	\$	5,758,418
Proprietary Funds		<u>763,816</u>
	\$	<u>6,522,234</u>

In addition to the cash and cash equivalents listed above, the district has agency funds that are not included in the governmental funds or the proprietary fund balances. The agency funds (school activity funds) at year end were \$717,251.

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.

NOTE D – DEPOSITS AND INVESTMENTS

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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE D – DEPOSITS AND INVESTMENTS – CONTINUED

Investments

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.

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, 2014, the District did not hold any investments in excess of this limit.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

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.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE E – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

Governmental Activities	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Non-depreciable assets:				
Land	\$ 2,921,133	\$ -	\$ -	\$ 2,921,133
Construction in process	-	355,328	-	355,328
Depreciable assets:				
Buildings and improvements	116,702,363	111,178	-	116,813,541
Technology equipment	2,460,763	213,948	35,202	2,639,509
Vehicles	5,581,285	-	248,497	5,332,788
General equipment	1,894,480	206,958	27,015	2,074,423
Totals at historical cost	129,560,024	887,412	310,714	130,136,722
Accumulated depreciation:				
Buildings and improvements	27,984,815	3,015,659	-	31,000,474
Technology equipment	2,005,877	184,338	35,203	2,155,012
Vehicles	3,700,281	338,209	248,497	3,789,993
General equipment	1,206,784	79,435	24,314	1,261,905
Total accumulated depreciation	34,897,757	3,617,641	308,014	38,207,384
Governmental activities capital assets, net	\$ 94,662,267	\$ (2,730,229)	\$ 2,700	\$ 91,929,338

Depreciation was charged to government functions as follows:

Instruction	\$ 2,833,363
District administration	57,524
School administration	14,206
Business support	2,306
Plant	374,107
Transportation	336,135
Total	\$ 3,617,641

Construction in process totaling \$355,328 is related to the Series 2014 Energy Conservation Revenue Bonds Project (the "Project"). The Project covers improvements for energy conservation measures at Cox's Creek Elementary and Nelson County High School. As of June 30, 2014, the remaining commitment to complete the project totals approximately \$2.9 million.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE E – CAPITAL ASSETS – CONTINUED

Business-Type Activities	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Depreciable assets:				
Technology equipment	\$ 72,149	\$ -	\$ -	\$ 72,149
General equipment	1,960,931	68,356	-	2,029,287
Totals at historical cost	2,033,080	68,356	-	2,101,436
Accumulated depreciation:				
Technology equipment	61,687	3,336	-	65,023
General equipment	1,096,293	119,550	-	1,215,843
Total accumulated depreciation	1,157,980	122,886	-	1,280,866
Business-type activities capital assets, net	\$ 875,100	\$ (54,530)	\$ -	\$ 820,570

NOTE F – LONG-TERM OBLIGATIONS

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

Issue Date	Original Proceeds	Interest Rates
1994	\$ 350,000	5.20%
2002	5,365,000	2.0% - 4.0%
2003	14,275,000	3.0% - 4.0%
2004	3,885,000	2.0% - 3.8%
2005	7,245,000	3.0% - 4.0%
2006	2,890,000	3.4% - 4.0%
2007	8,475,000	3.75%
2009	8,250,000	1.4% - 4.0%
2010 R	2,595,000	1.0% - 2.875%
2010 BAB	20,795,000	0.8 % - 6.0%
2010 B-BAB	8,555,000	1.0% - 5.65%
2011	780,000	1.4% - 4.5%
2011 R	8,670,000	0.75% - 2.375%
2014 R	18,770,000	2.0% - 3.5%
2014 EN	3,420,000	1.5% - 3.7%

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 Fiscal Court 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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

In February 2014, the Board issued \$18,770,000 of 2014R School Building Revenue Refunding Bonds refunding the 2010 Series Build America Bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$418,036. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2029 using the straight-line method which approximates the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 18 years by \$600,704.

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, 2014 for debt service (principal and interest) are as follows:

	Nelson County School District		Kentucky School Facility Construction Commission		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 2,759,441	\$ 1,829,851	\$ 600,559	\$ 265,381	\$ 3,360,000	\$ 2,095,232
2016	2,863,658	1,729,365	621,342	245,167	3,485,000	1,974,532
2017	2,947,803	1,652,037	612,197	226,087	3,560,000	1,878,124
2018	3,020,852	1,585,436	584,148	209,909	3,605,000	1,795,345
2019	3,098,901	1,513,024	601,099	196,180	3,700,000	1,709,204
2020 - 2024	16,954,171	6,219,253	3,035,829	679,507	19,990,000	6,898,760
2025 - 2029	20,184,580	3,192,389	1,535,420	207,763	21,720,000	3,400,152
2030 - 2034	7,116,026	335,684	208,974	11,144	7,325,000	346,828
	<u>\$ 58,945,432</u>	<u>\$ 18,057,039</u>	<u>\$ 7,799,568</u>	<u>\$ 2,041,138</u>	<u>\$ 66,745,000</u>	<u>\$ 20,098,177</u>

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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amounts due in one year
Revenue bonds payable	\$ 66,030,000	\$ 22,190,000	\$ 21,475,000	\$ 66,745,000	\$ 3,360,000
Claims payable - KSBIT	-	160,288	-	160,288	40,072
Accrued sick leave	572,896	148,953	143,657	578,192	115,638
	<u>\$ 66,602,896</u>	<u>\$ 22,499,241</u>	<u>\$ 21,618,657</u>	<u>\$ 67,483,480</u>	<u>\$ 3,515,710</u>

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

NOTE G – 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, 2014, the District had \$2,938,341 in restricted fund balance for future construction.

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 \$1,270,756 in committed funds at June 30, 2014 committed as follows: \$265,756 for technology, \$430,000 for future construction, \$325,000 for buses, and \$250,000 committed for sick leave.

Assigned fund balances represent 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. 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. The District had \$23,371 assigned for open purchase orders encumbered at June 30, 2014.

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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE H – RETIREMENT PLANS

Kentucky Teachers' Retirement System

The School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

KTRS 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). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at <http://www.ktrs.ky.gov/>.

Participating employees hired before July 1, 2008 contribute 11.355% of creditable compensation. Participating employees hired on or after July 1, 2008 contribute 11.355% of creditable compensation as well. Matching contributions are made by the state. The District contributed 1.5% of the employee's compensation for the fiscal year ended June 30, 2014 for participating employees hired before July 1, 2008. The District contributed 14.605% of the employee's compensation paid by federal programs for the fiscal year ended June 30, 2014 for participating employees hired on or after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions. The Board of Trustees of the Kentucky Retirement Systems determines the contribution rates.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2014 comprehensive annual financial report which is available from Kentucky Retirement Systems. A copy may be obtained from the Legislative Research Library in Frankfort, Kentucky.

Three-year Trend Information

Fiscal Year Ended	Annual Amount Withheld from Employees	Annual Amount Contributed by the District	Total Amount Contributed
6/30/2012	\$ 2,021,884	\$ 230,147	\$ 2,252,031
6/30/2013	\$ 2,060,162	\$ 339,435	\$ 2,399,597
6/30/2014	\$ 2,129,850	\$ 442,139	\$ 2,571,989

County Employees Retirement System

Employees who work on average of 80 hours per month over their contract participate in the County Employees Retirement System (CERS), which is a cost sharing, multiple-employer public employee's retirement system created by and operating under Kentucky law.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE H – RETIREMENT PLANS – CONTINUED

The CERS covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability, and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the CERS, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601-6124.

Participating employees hired before September 1, 2008 contribute 5.00% of creditable compensation. Participating employees hired on or after September 1, 2008, contribute 6.00% of creditable compensation. The District contributed 18.89% of creditable compensation during the fiscal year ended June 30, 2014. The Board of Trustees of the Kentucky Retirement Systems determines the contribution rates.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2014 comprehensive annual financial report which is available from Kentucky Retirement Systems. A copy may be obtained from the Legislative Research Library in Frankfort, Kentucky.

Three-year Trend Information

Fiscal Year Ended	Annual Amount Withheld from Employees	Annual Amount Contributed by the District	Total Amount Contributed
6/30/2012	\$ 305,823	\$ 1,133,804	\$ 1,439,627
6/30/2013	\$ 297,811	\$ 1,116,087	\$ 1,413,898
6/30/2014	\$ 302,487	\$ 1,096,853	\$ 1,399,340

The Kentucky Local School District total payroll for the year was approximately \$25,269,700. The payroll for employees covered under KTRS was approximately \$18,756,900 and the payroll for employees covered under CERS was approximately \$5,807,200 for the year ending June 30, 2014.

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, 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 this financial statement.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE I – 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.

In fiscal year 2013 the District was notified that in order to settle outstanding claims and deficits of the Kentucky School Boards Insurance Trust (KSBIT), a non-profit self-insured pool, an assessment would be made to present and prior insurance trust members. The District did not record an estimated liability as of June 30, 2013 on the government-wide statement of net position as the liability was not reasonably estimable.

On August 19, 2014, the District was notified of the final assessment of \$160,288. The claim is to be paid over a seven-year period. Accordingly, the District recorded the liability of \$160,288 in the governmental activities in the statement of activities for the year ending June 30, 2014. Payments due under the claim at June 30, 2014 are as follows:

Year Ending June 30	
2015	\$ 40,072
2016	20,036
2017	20,036
2018	20,036
2019	20,036
2020 - 2021	<u>40,072</u>
	\$ <u><u>160,288</u></u>

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE J – 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 K – 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 L – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until 24 months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving 90 days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro-rata basis.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE L – RISK MANAGEMENT – CONTINUED

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 M – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. The following funds had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of net position:

Food Service Fund	\$	52,916
Child Care Fund		6,663

NOTE N – 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).

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year ending June 30, 2014:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Technology Match	\$ 83,157
Capital Outlay Fund	Debt Service Fund	Debt Service	\$ 311,606
Capital Outlay Fund	Construction Fund	Construction Fund Reserve	\$ 109,772
Building Fund	Debt Service Fund	Debt Service	\$ 4,141,554

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE P – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2014 was \$7,446,625. These payments were recorded as follows:

General Fund	\$	6,214,558
Debt Service Fund		886,002
Food Service Fund		252,816
Child Care Fund		<u>93,249</u>
	\$	<u>7,446,625</u>

NOTE Q – POST-EMPLOYMENT HEALTH CARE BENEFITS

Retired District employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advance funded on an actuarially determined basis through the CERS and KTRS plans.

NOTE R – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 10, 2014, the date which the financial statements were available to be issued.

Subsequent to June 30, 2014, the District approved an increase in the property tax rate to 71.4 cents per \$100 in assessed value of real estate and personal property.

In August 2014, the District entered capital lease participation agreements issued by the Kentucky Interlocal School Transportation Association (KISTA) for the purchase of four school buses. Future minimum lease payments under the terms of the lease are as follows:

Year Ending June 30	
2015	\$ 47,884
2016	47,088
2017	41,034
2018	41,652
2019	41,586
2020 - 2021	<u>193,128</u>
	412,372
Less: amount representing interest	<u>(40,084)</u>
Present value of minimum lease payments	<u>\$ 372,288</u>

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE S – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2012, the District implemented Governmental Accounting Standards Board (GASB) Statements Nos. 63 and 65. Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, provides financial reporting guidance for deferred outflows and inflows of resources, originally introduced and defined in GASB Concepts Statement No. 4, Elements of Financial Statements, as a consumption of net position applicable to a future reporting period and an acquisition of net position applicable to a future reporting period, respectively. Further, Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position.

Statement No. 65, Items Previously Reported as Assets and Liabilities reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements:

- Deferred outflows of resources
- Outflows of resources
- Deferred inflows of resources
- Inflows of resources

Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that guidance.

Due to the changes in accounting principles described above, beginning net position for governmental activities has been decreased by \$388,128, from \$31,819,311 as previously reported at June 30, 2013 to \$31,431,183 as restated. This represents a restatement for bond issue costs that were amortized under the prior standards but expensed in the period incurred under the new standards.

NOTE T – EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. GASB 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE T – EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS – CONTINUED

The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for periods beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements. Application of the standard may require restatement of portions of these financial statements in future years.

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, 2014

	Budget			Variance Favorable (Unfavorable)
	Original	Final	Actual	
Revenues:				
Taxes:				
Property	\$ 8,160,000	8,450,000	\$ 8,485,743	\$ 35,743
Motor vehicle	1,150,000	1,150,000	1,202,248	52,248
Utilities	1,700,000	1,700,000	1,731,690	31,690
Distilled spirits tax	1,475,000	1,800,000	1,808,683	8,683
Tuition and fees	-	-	3,058	3,058
Earnings on investments	-	-	375	375
Other local revenues	90,000	140,000	283,293	143,293
Intergovernmental - intermediate	-	-	-	-
Intergovernmental - state	21,346,010	21,366,010	21,531,351	165,341
Total Revenues	<u>33,921,010</u>	<u>34,606,010</u>	<u>35,046,441</u>	<u>440,431</u>
Expenditures:				
Instruction	18,975,457	19,227,621	19,401,243	(173,622)
Support services:				-
Student	1,541,077	1,446,134	1,503,445	(57,311)
Instruction staff	1,693,811	1,476,713	1,469,949	6,764
District administration	1,326,591	1,464,282	1,200,477	263,805
School administrative	2,623,451	2,695,151	2,836,614	(141,463)
Business	1,147,780	1,302,416	1,448,777	(146,361)
Plant operation and maintenance	3,843,210	3,624,463	4,146,157	(521,694)
Student transportation	2,919,633	2,944,230	2,609,347	334,883
Community service activities	-	-	812	(812)
Total Expenditures	<u>34,071,010</u>	<u>34,181,010</u>	<u>34,616,821</u>	<u>(435,811)</u>
Excess (deficit) of revenues over expenditures	<u>(150,000)</u>	<u>425,000</u>	<u>429,620</u>	<u>4,620</u>
Other financing sources (uses)				
Proceeds from sale of fixed assets	-	-	9,970	9,970
Contingency	(800,000)	(1,650,000)	-	1,650,000
Operating transfers in	100,000	100,000	-	(100,000)
Operating transfers out	(450,000)	(75,000)	(83,157)	(8,157)
Total other financing sources (uses)	<u>(1,150,000)</u>	<u>(1,625,000)</u>	<u>(73,187)</u>	<u>1,551,813</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (1,300,000)</u>	<u>\$ (1,200,000)</u>	<u>\$ 356,433</u>	<u>\$ 1,556,433</u>
Fund balance, July 1, 2013	1,300,000	1,200,000	2,472,331	
Fund balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,828,764</u>	

See accompanying report of independent auditors.

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, 2014

	Budget			Variance Favorable (Unfavorable)
	Original	Final	Actual	
Revenues:				
Tuition and fees	\$ -	\$ -	\$ 73,403	\$ 73,403
Other local revenues	50,000	35,000	180,130	145,130
Intergovernmental - state	1,236,661	1,298,766	1,252,368	(46,398)
Intergovernmental - indirect federal	2,044,879	2,265,159	2,162,194	(102,965)
Intergovernmental - direct federal	-	-	-	-
Total Revenues	<u>3,331,540</u>	<u>3,598,925</u>	<u>3,668,095</u>	<u>69,170</u>
Expenditures:				
Instruction	1,935,184	2,562,765	2,441,628	121,137
Support services:				
Student	-	292,721	400,732	(108,011)
Instruction staff	1,030,856	226,294	131,805	94,489
Business	150,000	150,000	50,685	99,315
Plant operation and maintenance	-	-	15,933	(15,933)
Student transportation	-	150,540	376,549	(226,009)
Community Service Activities	290,500	291,605	333,920	(42,315)
Total Expenditures	<u>3,406,540</u>	<u>3,673,925</u>	<u>3,751,252</u>	<u>(77,327)</u>
Excess (Deficit) Of Revenues Over Expenditures	<u>(75,000)</u>	<u>(75,000)</u>	<u>(83,157)</u>	<u>(8,157)</u>
Other Financing Sources (Uses)				
Operating transfers in	75,000	75,000	83,157	8,157
Operating transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>75,000</u>	<u>75,000</u>	<u>83,157</u>	<u>8,157</u>
Excess (Deficit) Of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balance, July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>	
Fund Balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

See accompanying report of independent auditors.

SUPPLEMENTARY INFORMATION

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

JUNE 30, 2014

	Debt Service Fund	Capital Outlay Fund	Building Fund	Total
Assets:				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Accounts receivable	-	-	-	-
Investments	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets & Resources	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Liabilities & Fund Balances:				
Liabilities:				
Accounts payable	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	-	-	-	-
Fund Balances:				
Restricted	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities & Fund Balances	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2014

	Debt Service Fund	Capital Outlay Fund	Building Fund	Total
Revenues:				
From Local Sources:				
Taxes:				
Property	\$ -	\$ -	\$ 3,250,000	\$ 3,250,000
Intergovernmental - State	886,002	421,378	891,554	2,198,934
Total Revenues	<u>886,002</u>	<u>421,378</u>	<u>4,141,554</u>	<u>5,448,934</u>
Expenditures				
Plant Operation & Maintenance	-	-	-	-
Facilities Acquisition & Maintenance	-	-	-	-
Debt Service	5,439,411	-	-	5,439,411
Total Expenditures	<u>5,439,411</u>	<u>-</u>	<u>-</u>	<u>5,439,411</u>
Excess (deficit) of revenues over expenditures	(4,553,409)	421,378	4,141,554	9,523
Other financing sources (uses)				
Proceeds from sale of bonds	18,541,849	-	-	18,541,849
Bond fees and discount	-	-	-	-
Payment to refund bond escrow agent	(18,441,600)	-	-	(18,441,600)
Operating transfers in	4,453,160	-	-	4,453,160
Operating transfers out	-	(421,378)	(4,141,554)	(4,562,932)
Total other financing sources (uses)	<u>4,553,409</u>	<u>(421,378)</u>	<u>(4,141,554)</u>	<u>(9,523)</u>
Change in fund balances	-	-	-	-
Fund balance, July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION – AGENCY FUNDS

JUNE 30, 2014

	Bloomfield Middle School	New Haven Elementary School	Boston Elementary School	Old Ky Home Middle School	Cox's Creek Elementary School	Foster Heights Elementary School
Assets						
Cash and cash equivalents	\$ 53,800	\$ 39,663	\$ 44,608	\$ 81,384	\$ 65,593	\$ 64,924
Accounts receivable	-	-	-	-	-	-
Total assets	<u>\$ 53,800</u>	<u>\$ 39,663</u>	<u>\$ 44,608</u>	<u>\$ 81,384</u>	<u>\$ 65,593</u>	<u>\$ 64,924</u>
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to student groups	53,800	39,663	44,608	81,384	65,593	64,924
Total liabilities	<u>\$ 53,800</u>	<u>\$ 39,663</u>	<u>\$ 44,608</u>	<u>\$ 81,384</u>	<u>\$ 65,593</u>	<u>\$ 64,924</u>
	Nelson County High School	Bloomfield Elementary School	Thomas Nelson High School	Early Childhood Center	Total Agency Funds	
Assets						
Cash and cash equivalents	\$ 193,919	\$ 58,958	\$ 109,416	\$ 4,986	\$ 717,251	
Accounts receivable	-	-	-	-	-	
Total assets	<u>\$ 193,919</u>	<u>\$ 58,958</u>	<u>109,416</u>	<u>4,986</u>	<u>717,251</u>	
Liabilities						
Accounts payable	\$ -	\$ -	-	-	-	
Due to student groups	193,919	58,958	109,416	4,986	717,251	
Total liabilities	<u>\$ 193,919</u>	<u>\$ 58,958</u>	<u>\$ 109,416</u>	<u>\$ 4,986</u>	<u>\$ 717,251</u>	

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT**SCHEDULE OF ASSETS, RECEIPTS, DISBURSEMENTS, AND LIABILITIES – ALL SCHOOLS****AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	Cash Balance July 1, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Due to Student Groups June 30, 2014
Bloomfield Middle School	\$ 43,586	\$ 144,879	\$ 134,665	\$ 53,800	\$ 53,800
New Haven Elementary School	33,209	95,939	89,485	39,663	39,663
Boston Elementary School	53,949	45,977	55,318	44,608	44,608
Old Ky Home Middle School	92,537	129,103	140,256	81,384	81,384
Cox's Creek Elementary School	65,644	125,899	125,950	65,593	65,593
Foster Heights Elementary School	95,635	118,168	148,879	64,924	64,924
Nelson County High School	195,822	614,691	616,594	193,919	193,919
Bloomfield Elementary School	71,260	61,673	73,975	58,958	58,958
Thomas Nelson High School	96,710	336,301	323,595	109,416	109,416
Nelson Co. Early Learning Center	4,719	11,094	10,827	4,986	4,986
Totals	<u>\$ 753,071</u>	<u>\$ 1,683,724</u>	<u>\$ 1,719,544</u>	<u>\$ 717,251</u>	<u>\$ 717,251</u>

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balance July 1, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2014
Administration	\$ 10,996	\$ 7,097	\$ 18,093	\$ -	\$ -	\$ -
General fund	-	438	-	438	-	438
Athletic Vending	8,288	7,482	10,247	5,523	-	5,523
Banking for Students	151	-	151	-	-	-
Teachers' Lounge	1,518	7,012	5,666	2,864	-	2,864
Band	-	56,099	53,977	2,122	-	2,122
Field Trips	111	-	111	-	-	-
Cardinal Collection	1,152	241	1,393	-	-	-
AP Tests	946	5,491	5,964	473	-	473
Drama	1,556	11,732	10,858	2,430	-	2,430
Guidance	2,108	584	2,000	692	-	692
Special Education	120	370	11	479	-	479
Prom	2,445	12,325	13,000	1,770	-	1,770
Library	2,843	1,268	2,011	2,100	-	2,100
Nurse	1,931	31	392	1,570	-	1,570
Colorguard	-	4,733	4,733	-	-	-
Textbook - Lost/Damaged	6,326	508	5,850	984	-	984
Use of Building	3,277	6,517	6,689	3,105	-	3,105
Yearbook	35,173	3,768	386	38,555	-	38,555
Vending	2,308	5,125	5,047	2,386	-	2,386
Smoking Cessation	20	-	20	-	-	-
ROTC - Unit Funds	8,560	6,948	9,849	5,659	-	5,659
Instructional	17,580	17,497	31,374	3,703	-	3,703
Science Department	-	14,892	6,397	8,495	-	8,495
Art	1,093	17,963	17,519	1,537	-	1,537
Renaissance Class	31	1,557	1,532	56	-	56
PE Class	192	-	30	162	-	162
Graduate Class	4,693	-	2,203	2,490	-	2,490
Math Dept.	124	-	26	98	-	98
Transition Acct.	1,296	491	826	961	-	961
Heritage Club	250	-	250	-	-	-
Key Club	975	4,628	4,385	1,218	-	1,218
Book Club - Page	39	4	-	43	-	43
FFA	882	31,680	29,677	2,885	-	2,885
STLP	12	-	-	12	-	12
St. Council	4,000	2,250	2,750	3,500	-	3,500
Grade 9	-	-	-	-	-	-
Grade 10	-	-	-	-	-	-
Grade 11	-	-	-	-	-	-
Grade 12	-	-	-	-	-	-
National Honor Society	2,136	385	2,032	489	-	489
FFA - Corn Maze	556	4,630	5,186	-	-	-
Tech. Student Assoc.	-	-	-	-	-	-
NHS Scholarship	468	1,016	469	1,015	-	1,015
Literary Magazine	77	-	36	41	-	41
Student Council	4,398	3,691	3,937	4,152	-	4,152
AP Biology	588	-	587	1	-	1
FFA - Scholarship	765	2,798	886	2,677	-	2,677
Academic Team	459	-	122	337	-	337
CASA-SADD	26	818	490	354	-	354
FFA - Fruit Sales	-	5,398	5,398	-	-	-
Fellowship-Christian	801	71	467	405	-	405
FFA - Greenhouse	1,408	5,127	4,684	1,851	-	1,851
FFA - Floriculture	25	350	350	25	-	25
FFA - Region Lincoln	2,758	4,059	5,434	1,383	-	1,383
Girls' Golf	1,204	4,132	4,994	342	-	342
Girls' Soccer	60	11,151	3,029	8,182	-	8,182

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balance July 1, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2014
(Continued)						
Athletic	7,047	117,008	107,777	16,278	-	16,278
Boys' Basketball	4,713	15,939	15,609	5,043	-	5,043
Cardinal Concessions	-	16,379	16,379	-	-	-
Turf Account	166	15,425	14,500	1,091	-	1,091
Track	441	4,175	3,566	1,050	-	1,050
Caution Crew	436	-	400	36	-	36
Boys' Soccer	702	10,703	9,853	1,552	-	1,552
Pom Pom Squad	613	-	403	210	-	210
Archery	264	2,135	1,892	507	-	507
Cross Country	5,788	20,071	18,540	7,319	-	7,319
Tennis	594	2,050	1,436	1,208	-	1,208
Baseball	2,487	30,194	28,182	4,499	-	4,499
Girls' Softball	-	18,245	16,445	1,800	-	1,800
Volleyball	2,988	27,907	26,023	4,872	-	4,872
Boys' Golf	1,741	3,000	1,050	3,691	-	3,691
Swim Team	1	1,609	1,420	190	-	190
Cheerleaders	314	3,521	1,750	2,085	-	2,085
Bowling Team	-	4,313	3,579	734	-	734
Lady Cards' Basketball	1,550	18,505	17,963	2,092	-	2,092
Wrestling	416	3,891	2,657	1,650	-	1,650
Football Team	7,032	24,249	24,270	7,011	-	7,011
NC Elementary Boys	162	20,385	12,060	8,487	-	8,487
Girls Soccer Boosters	9,386	-	9,386	-	-	-
Project Graduation	5,500	22,556	24,656	3,400	-	3,400
Volleyball Boosters	-	6,585	6,585	-	-	-
FFA Alumni	6,756	2,005	7,211	1,550	-	1,550
Sub Total	195,822	663,207	665,110	193,919	-	193,919
Transfers	-	48,516	48,516	-	-	-
TOTAL	<u>\$ 195,822</u>	<u>\$ 614,691</u>	<u>\$ 616,594</u>	<u>\$ 193,919</u>	<u>\$ -</u>	<u>\$ 193,919</u>

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balance July 1, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2014
General	\$ 1,863	18,160	18,306	\$ 1,717	\$ -	\$ 1,717
Laying the Foundation	-	2,500	-	2,500	-	2,500
Tuition	5,285	-	5,285	-	-	-
Use of Building	217	100	-	317	-	317
Junior Chef	103	30	59	74	-	74
Guidance	382	462	728	116	-	116
SEA	-	500	408	92	-	92
Textbook Fees	13,012	720	6,350	7,382	-	7,382
SOC	-	1,106	963	143	-	143
Concessions	764	46,590	40,513	6,841	-	6,841
Athletics	2,173	62,838	60,874	4,137	-	4,137
Athletic Transportation	2,625	-	2,625	-	-	-
Staff Vending	335	1,560	1,895	-	-	-
Staff Flower Fund	72	-	72	-	-	-
Nurse	165	-	8	157	-	157
PEP Club	636	1,538	1,985	189	-	189
Ping Pong Club	63	-	-	63	-	63
Leadership Dynamics	10	6,383	6,354	39	-	39
STLP	77	196	236	37	-	37
FBLA	-	1,487	1,487	-	-	-
Fellowship Christian	251	-	-	251	-	251
Key Club	2,251	1,046	590	2,707	-	2,707
Leader Council	1,975	3,057	1,598	3,434	-	3,434
General Care	-	290	-	290	-	290
Smoking	644	5	-	649	-	649
Beta Club	341	5,815	4,978	1,178	-	1,178
Corp Scholars	513	-	513	-	-	-
Football	2,627	28,273	20,384	10,516	-	10,516
Volleyball	6,295	9,453	11,431	4,317	-	4,317
Boys Basketball	3,884	9,265	8,362	4,787	-	4,787
Boys Soccer	2,826	5,748	4,741	3,833	-	3,833
Girls Soccer	6,368	6,537	9,233	3,672	-	3,672
Golf	4,338	5,509	9,847	-	-	-
Bowling	4,076	3,467	3,854	3,689	-	3,689
Cross Country	24	3,138	3,162	-	-	-
Track & Field	1	-	1	-	-	-
Baseball	7,700	7,609	13,431	1,878	-	1,878
Wrestling	284	1,374	1,393	265	-	265
Girls Basketball	4,646	5,742	6,702	3,686	-	3,686
Archery	112	1,785	1,700	197	-	197
Girls Softball	1,721	6,736	6,819	1,638	-	1,638
Cheerleading	1,085	7,033	5,940	2,178	-	2,178
Tennis	33	181	188	26	-	26
Dance Team	70	1,848	1,024	894	-	894
Band	985	9,173	8,164	1,994	-	1,994
Drama	410	3,569	2,253	1,726	-	1,726
General Store	2,091	2,440	3,056	1,475	-	1,475
FFA	2,481	20,530	22,059	952	-	952
Corn Maze	-	9,423	8,932	491	-	491
Dodge	-	1,165	308	857	-	857
FFA Alumni	-	5,142	802	4,340	-	4,340
AP Test	856	8,945	8,346	1,455	-	1,455
Project Liftoff	-	22,059	21,932	127	-	127

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balance July 1, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2014
(Continued)						
Prom	-	7,229	3,516	3,713	-	3,713
Library	1,159	1,075	1,489	745	-	745
Yearbook	6,951	19,556	9,813	16,694	-	16,694
Journalism	-	-	-	-	-	-
Art	1,343	20	692	671	-	671
Physical Ed	289	-	225	64	-	64
National Honor Society	75	294	369	-	-	-
Math Dept	59	-	-	59	-	59
Humanities	161	-	-	161	-	161
Anatomy	3	-	-	3	-	3
AP Biology	-	668	668	-	-	-
Sub Total	96,710	369,369	356,663	109,416	-	109,416
Transfers	-	33,068	33,068	-	-	-
TOTAL	<u>\$ 96,710</u>	<u>\$ 336,301</u>	<u>\$ 323,595</u>	<u>\$ 109,416</u>	<u>\$ -</u>	<u>\$ 109,416</u>

See accompanying report of independent auditors.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department Of Education</u>			
Passed through the Kentucky Department of Education			
Title I Cluster			
Title I - Part A Cluster	84.010	3102M	\$ 3,311
		3103	177,978
		3103M	8,465
		3104	568,580
		3104M	<u>1,002</u>
TOTAL TITLE I CLUSTER			<u>759,336</u>
Special Education Cluster (IDEA)			
Special Education - Grants to State	84.027	3372P	25,856
		3373	90,954
		3373P	48,765
		3374	794,254
		3374P	<u>13,178</u>
			<u>973,007</u>
Special Education - Preschool Grants	84.173	3433	30,381
		3433P	7,552
		3434	26,805
		3434P	<u>1,358</u>
			<u>66,096</u>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>1,039,103</u>
Vocational Education - Basic Grants to States			
	84.048	3483	12,154
		3483A	1,294
		3484	<u>24,901</u>
			<u>38,349</u>
Improving Teacher Quality - State Grants			
	84.367	4013	90,760
		4014	<u>15,391</u>
			<u>106,151</u>
TOTAL EDUCATION TECHNOLOGY STATE GRANTS CLUSTER			<u>144,500</u>
Race to the Top			
	84.416	4521	<u>2,436</u>
Twenty-First Century Community Learning Centers			
	84.287	5502	44,026
		5502J	430
		5503	150,000
		5503B	71,216
		5503S	10,000
		5503Z	<u>9,656</u>
			<u>285,328</u>
Total U.S. Department Of Education			<u>2,230,703</u>

See accompanying report of independent auditors and
notes to the schedule of expenditures of federal awards

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>
(Continued)			
<u>U.S. Department Of Agriculture</u>			
Child Nutrition Cluster:			
Cash Assistance			
Passed through the Kentucky Department of Education			
School Breakfast Program	10.553	090451999	364,707
National School Lunch Program	10.555	090451999	1,097,491
Noncash Assistance (Commodities)			
National School Lunch Program	10.555	090451999	162,092
Total U.S. Department Of Agriculture			<u>1,624,290</u>
Total Federal Program Expenditures			<u><u>\$ 3,854,993</u></u>

See accompanying report of independent auditors and
notes to the schedule of expenditures of federal wards

NELSON COUNTY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2014

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Nelson County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 – FOOD DISTRIBUTION

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

NOTE 3 – SUBRECIPIENTS

There were no subrecipients during the year ending June 30, 2014.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2014

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes X no

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2014

Section I – Summary of Auditor's Results – Continued

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Education Agencies
	Child Nutrition Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program

Dollar threshold used to distinguish
Between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

Section II – Financial Statement Findings

MATERIAL WEAKNESS

REFERENCE NUMBER 2014-01

Criteria: The District's management is responsible for establishing and maintaining internal controls for the proper recording of all the District's accounting transactions. This is a repeat finding from the prior year.

Condition: As part of the audit we proposed material adjustments related to capital assets and long-term debt to the financial statements.

Cause: The District did not identify and record material transactions related to property and equipment and long-term debt in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

Effect: The design of the internal controls over fixed assets and long-term debt did not prevent material adjustments.

Recommendation: We recommend District's management and financial personnel review the procedures and processes involved in recording journal entries and enhance its internal control policies to ensure proper recording of these items. The District may consider hiring a consultant to assist with the preparation of the financial statements.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2014

Section II – Financial Statement Findings – Continued

Management Response: Management will review the procedures and processes involved in recording journal entries and enhance its internal control policies to ensure proper recording of these items.

Section III – Federal Award Findings and Questioned Costs

No findings or questioned costs to report.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2014

REFERENCE NUMBER 2013-01

Condition: See Finding 2014-01, which is a repeat from prior audit.

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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

Members of the Board of Education
Nelson County School District
Bardstown, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the Nelson County School District's basic financial statements and have issued our report thereon dated November 10, 2014.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-01 to be a material weakness.

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 10, 2014.

Nelson County School District's Response to Findings

The Nelson County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Bardstown, Kentucky
November 10, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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 *Circular A-133 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, 2014. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 OMB Circular A-133 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, 2014.

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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Smith & Company CPAs, PLLC

Bardstown, Kentucky
November 10, 2014

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Nelson County School District
Bardstown, Kentucky

In planning and performing our audit of the financial statements of Nelson County School District for the year ended June 30, 2014, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. A separate report dated November 10, 2014 contains our report on the District's internal control structure. This letter does not affect our report dated November 10, 2014 on the financial statements of the Nelson County School District.

We will review the status of our comments during our next audit engagement. We have already discussed the comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of management, members of the board of education, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,



Bardstown, Kentucky
November 10, 2014

NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2014

CURRENT YEAR COMMENTS

School Activity Funds – Required Procedures

Criteria: The Kentucky Department of Education “Red Book” requires use of specific forms (or reasonable facsimiles) and various procedures for certain activities. The chart below summarizes conditions we noted during our audit.

Conditions:	NH	TN HS	FH	BMS	NC HS	OKH MS	BS	CC
Missing or incomplete fundraiser worksheets				√				
Missing multiple receipt forms				√	√	√	√	√
Multiple receipt forms not signed by students		√						
Inventory control sheets not completed or incomplete	√		√	√			√	
Purchase order not completed / approved							√	

Legend:

NH – New Haven School
TNHS – Thomas Nelson High School
FH – Foster Heights Elementary School
BMS – Bloomfield Middle School
NCHS – Nelson County High School
OKHMS – Old Kentucky Home Middle School
BS – Boston School
CC – Cox’s Creek Elementary School

Cause: School personnel and principals did not ensure Red Book compliance for the instances noted above.

Effect: Noncompliance with the Red Book policies and procedures could lead to the misappropriation of assets.

Recommendation: We recommend the principal and bookkeeper at each school review the “Red Book” and comply with the policy and procedure requirements.

Management’s Response: We have stressed compliance with the Red Book to both principals and bookkeepers and require annual Red Book training.

NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2014

STATUS OF PRIOR YEAR FINDINGS

The chart below summarizes conditions we noted during our audit for the year ending June 30, 2013.

Conditions:	NH	TN HS	BES	BMS	NC HS	CC	OKH MS
Missing fundraiser worksheets							√
Missing multiple receipt forms				√	√	√	
Inventory control sheets not completed or incomplete	√						
Sales tax paid on transaction		√					
Purchase order not completed / approved			√				
Receipts were not deposited timely				√			

Legend:

NH – New Haven School
TNHS – Thomas Nelson High School
BES – Bloomfield Elementary School
BMS – Bloomfield Middle School
NCHS – Nelson County High School
CC – Cox's Creek Elementary
OKHMS – Old Kentucky Home Middle School

Current Status: The principals and bookkeepers for the above schools have made significant progress toward eliminating the above conditions. Also, all bookkeepers attended a "Red Book" training course during the year ending June 30, 2014.

Management's Response: We have stressed compliance with the Red Book to both principals and bookkeepers and require annual Red Book training. We believe schools are making significant progress towards eliminating procedural exceptions to Red Book policies and procedures.