

NELSON COUNTY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2016

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, 2016, 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 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, 2016, 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, budgetary comparison information, and pension schedules on pages 4 – 10 and 46 – 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* 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 October 28, 2016, 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.

A handwritten signature in cursive script that reads "Smith & Company CPAs, PLLC".

Bardstown, Kentucky
October 28, 2016

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

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, 2016. 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 \$12.0 million.
- Local tax levied at the three percent rate increase of 0.74 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 2015 to 2016, total revenues from governmental activities increased approximately \$1,495,000 primarily due to increased tax revenues, distilled spirits tax revenues and state grant revenues.
- The district adopted a budget in May 2016 for the upcoming year with \$3.11 million in contingency (5.74% of total budgeted expenditures).
- The District refunded approximately \$8.31 million by issuing \$8.905 million in 2016 Series Refunding bonds. The refunding of the bonds is expected to decrease total future debt service payments by approximately \$488,000. The District also issued \$6.525 million in project bonds for projects at Thomas Nelson County High and the Nelson County Early Learning Center.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The government-wide financial statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These statements present summaries of Governmental and Business-Type Activities for the District accompanied by a total column.

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

The government-wide financial statements can be found on pages 11 through 12 of this report.

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

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 20 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$26.0 million as of June 30, 2016.

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.

Net Position

The 2016 Government-wide net position compared to 2015 is as follows:

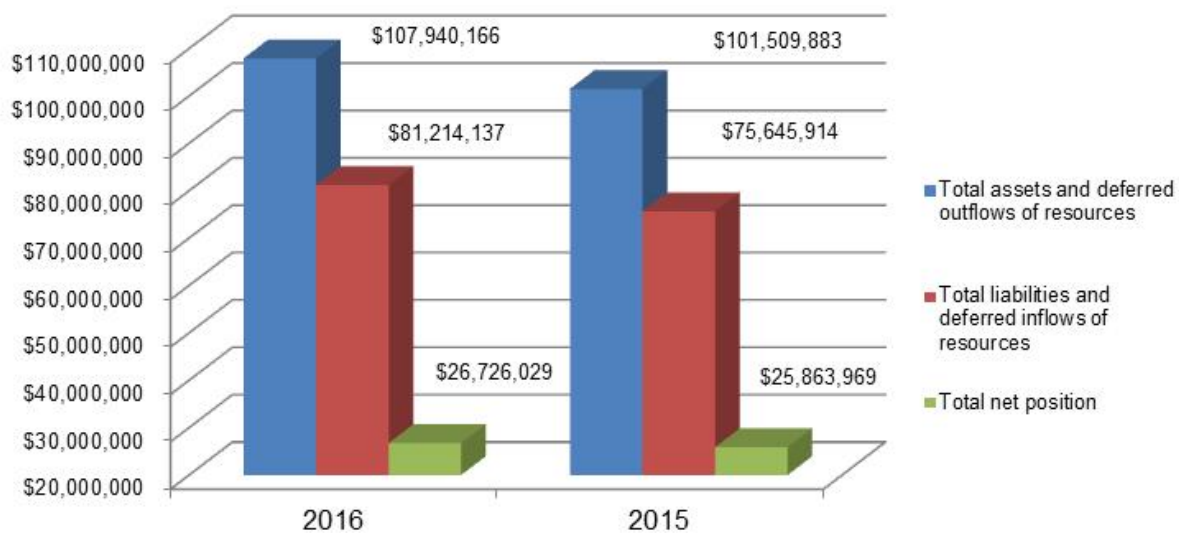
**Net Position
(Table 1)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	(Restated) 2015	2016	(Restated) 2015	2016	(Restated) 2015
Current and other assets	\$ 12,194,941	\$ 5,000,819	\$ 799,203	\$ 841,239	\$ 12,994,144	\$ 5,842,058
Capital assets	90,855,493	93,188,496	570,456	694,514	91,425,949	93,883,010
Total assets	103,050,434	98,189,315	1,369,659	1,535,753	104,420,093	99,725,068
Deferred outflows of resources	3,104,195	1,630,206	415,878	154,609	3,520,073	1,784,815
Non-current liabilities	71,980,025	67,087,978	2,231,718	1,714,074	74,211,743	68,802,052
Other liabilities	6,155,728	5,926,299	28	2,098	6,155,756	5,928,397
Total liabilities	78,135,753	73,014,277	2,231,746	1,716,172	80,367,499	74,730,449
Deferred inflows of resources	669,691	724,133	176,947	191,332	846,638	915,465
Net position:						
Invested in capital assets						
net of related debt	23,985,985	29,430,888	570,456	820,570	24,556,441	30,251,458
Restricted	6,589,163	244,984	-	-	6,589,163	244,984
Unrestricted	(3,225,963)	(3,594,761)	(1,193,612)	(1,037,712)	(4,419,575)	(4,632,473)
Total net position	\$ 27,349,185	\$ 26,081,111	\$ (623,156)	\$ (217,142)	\$ 26,726,029	\$ 25,863,969

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

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

- Capital assets decreased approximately \$2.5 million due to current year depreciation of \$4.1 million offset by FY2016 additions approximately \$1.6 million primarily as a result of construction costs related to projects at Thomas Nelson High School and Nelson County Learning Center and related improvements and, new computers, buses, and network equipment.
- Total long-term obligations for bonds increased approximately \$3.5 million as a result of issuing \$8.9 million in Series 2016 Refunding bonds and \$6.595 million in Series 2016 Project bonds. These were offset by \$8.31 million in bonds refunded and regularly scheduled principal payments of \$3.61 million during fiscal year 2016. Also, the District paid \$120,216 toward a claim related to outstanding claims and deficits of the Kentucky School Boards Insurance Trust (KSBIT). The District’s proportionate share of the County Employee’s Retirement System (CERS) net pension liability increased approximately \$2.5 million (as actuarially determined and reported by CERS).



NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

Change in Net Position

The following Table 2 presents the summary of changes in net position for the fiscal years ending June 30, 2016 and 2015.

Changes in Net Position
(Table 2)

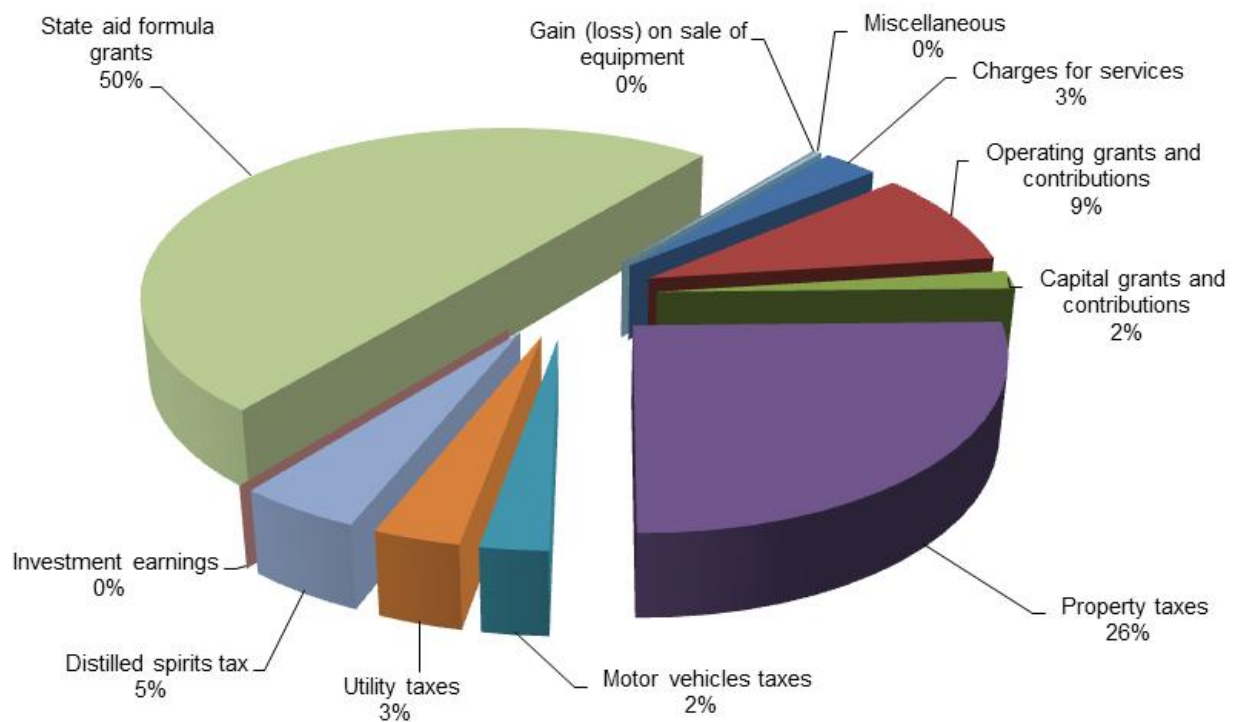
	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program Revenues						
Charges for services	\$ 194,601	\$ 120,175	\$ 1,269,427	\$ 1,311,777	\$ 1,464,028	\$ 1,431,952
Operating grants and contributions	2,314,759	2,277,449	2,261,837	2,033,818	4,576,596	4,311,267
Capital grants and contributions	870,245	869,836	-	-	870,245	869,836
General Revenues						
Property taxes	13,028,207	12,324,689	-	-	13,028,207	12,324,689
Motor vehicle taxes	1,306,787	1,231,849	-	-	1,306,787	1,231,849
Utility taxes	1,671,382	1,725,906	-	-	1,671,382	1,725,906
Distilled spirits tax	2,361,393	1,998,118	-	-	2,361,393	1,998,118
Investment earnings	439	259	-	-	439	259
State aid formula grants	25,425,696	25,037,140	-	-	25,425,696	25,037,140
Gain (loss) on sale of equipment	55,593	3,648	-	-	55,593	3,648
Miscellaneous	160,718	306,185	-	-	160,718	306,185
Total revenues	<u>47,389,820</u>	<u>45,895,254</u>	<u>3,531,264</u>	<u>3,345,595</u>	<u>50,921,084</u>	<u>49,240,849</u>
EXPENSES						
Program Activities						
Instruction	26,448,306	25,453,558	-	-	26,448,306	25,453,558
Student support	1,844,520	2,024,663	-	-	1,844,520	2,024,663
Instruction staff support	1,866,949	1,768,186	-	-	1,866,949	1,768,186
District administration support	1,072,970	1,173,757	-	-	1,072,970	1,173,757
School administrative support	2,963,235	2,833,660	-	-	2,963,235	2,833,660
Business support	1,770,752	1,439,906	-	-	1,770,752	1,439,906
Plant operation and maintenance	4,531,052	3,839,495	-	-	4,531,052	3,839,495
Student transportation	3,470,001	3,481,335	-	-	3,470,001	3,481,335
Community service activities	343,084	343,283	-	-	343,084	343,283
Interest on long-term debt	1,810,877	2,416,670	-	-	1,810,877	2,416,670
Business-type Activities						
Food service	-	-	3,074,804	2,991,980	3,074,804	2,991,980
Child care	-	-	692,679	549,466	692,679	549,466
Total expenses	<u>46,121,746</u>	<u>44,774,513</u>	<u>3,767,483</u>	<u>3,541,446</u>	<u>49,889,229</u>	<u>48,315,959</u>
Transfers	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	<u>\$ 1,268,074</u>	<u>\$ 1,220,741</u>	<u>\$ (236,219)</u>	<u>\$ (295,851)</u>	<u>\$ 1,031,855</u>	<u>\$ 924,890</u>

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

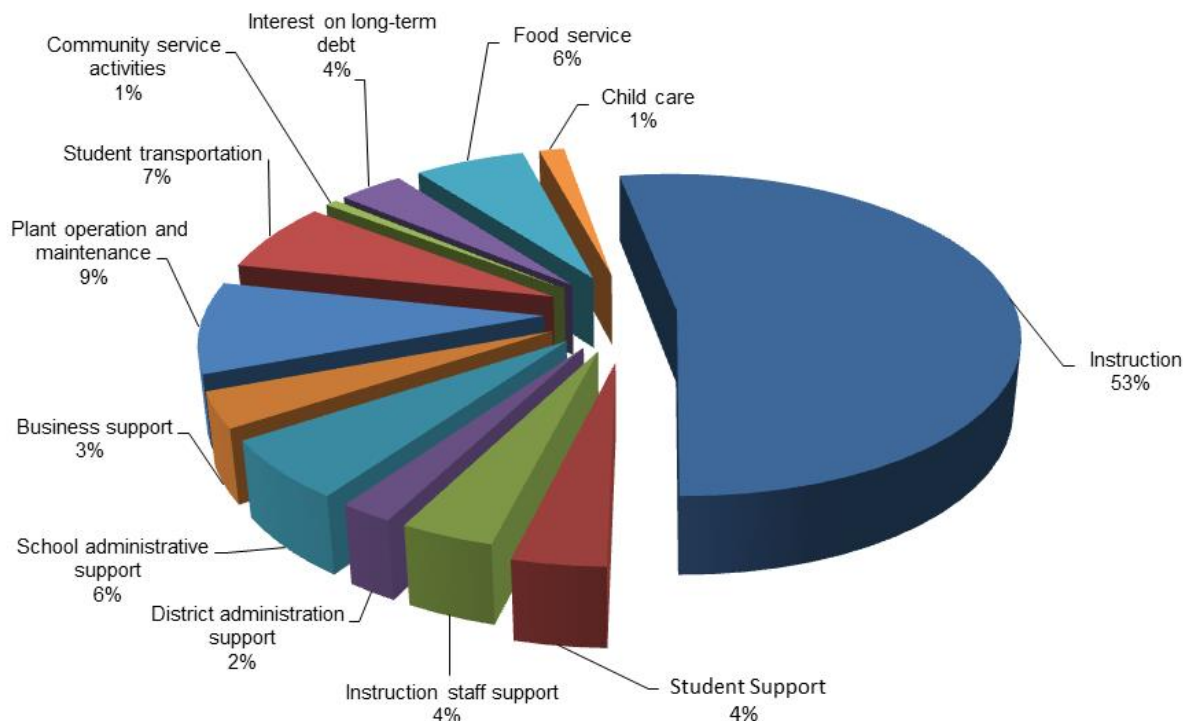
- Total revenues increased approximately \$1.68 million primarily due to increases in property and distilled spirit taxes (approximately \$1.07 million combined increase) as well as increases in SEEK funding and state grants of approximately \$359,000.
- Total expenses increased approximately \$1.58 million as a result of increases in Instruction expenses of approximately \$995,000, increase in Business Support of approximately \$331,000, increase in Plant Operation and Maintenance of approximately \$692,000, increases in Food Service of approximately \$85,000, and increases in Child Care of approximately \$. These were offset by the following: decreases in District Administration of approximately \$204,000 and decrease in Plant Operation and Maintenance of approximately \$516,000.

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

The following provides a breakdown of total primary government revenues for the year ending June 30, 2016:



The following provides a breakdown of total primary government expenses for the year ending June 30, 2016:



NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

Capital Assets

At the end of fiscal year 2016, the School District had approximately \$93.2 million invested in land, building and improvements, vehicles, equipment, and construction in process. Table 3 shows fiscal year 2016 and 2015 balances.

Capital Assets, Net of Depreciation
(Table 3)

	2016	2015	2016	2015	2016	2015
Land	\$ 2,921,133	\$ 2,921,133	\$ -	\$ -	\$ 2,921,133	\$ 2,921,133
Land improvements	114,930	121,000			114,930	121,000
Buildings and improvements	83,115,417	86,224,115	-	-	83,115,417	86,224,115
Technology Equipment	873,386	943,265	2,724	4,175	876,110	947,440
Vehicles	2,196,809	2,093,255	-	-	2,196,809	2,093,255
General equipment	861,552	860,242	567,732	690,339	1,429,284	1,550,581
Total	<u>90,083,227</u>	<u>93,163,010</u>	<u>570,456</u>	<u>694,514</u>	<u>90,653,683</u>	<u>93,857,524</u>
Construction in process	<u>772,266</u>	<u>25,486</u>	<u>-</u>	<u>-</u>	<u>772,266</u>	<u>25,486</u>
Total	<u>\$ 90,855,493</u>	<u>\$ 93,188,496</u>	<u>\$ 570,456</u>	<u>\$ 694,514</u>	<u>\$ 91,425,949</u>	<u>\$ 93,883,010</u>

The following were major additions and capital assets placed in service during fiscal year 2016:

Buses	\$ <u>359,136</u>
Five maintenance trucks	\$ <u>138,267</u>
Computer and Network Peripherals	\$ <u>207,571</u>

Debt

At June 30, 2016, the School District had \$67,115,000 in bonds outstanding. Of this amount, \$7,621,928 is to be paid by the Kentucky School Facility Construction Commission. A total of \$3,790,000 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 \$35.8 million with actual amounts of approximately \$37.3 million. Budgeted expenditures of approximately \$35.4 million compare with actual expenditures of approximately \$36.5 million. The most significant fluctuations were for plant operation and maintenance expenditures for items that exceeded budget by approximately \$546,000, instruction where expenditures exceeded budget by approximately \$600,000, and debt service where expenditures exceed budget by approximately \$342,000.

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 21-45 of this report.

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

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 2015-2016 with a contingency that exceeded the 2% minimum. The District has adopted a budget for 2016-2017 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, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 11,301,195	\$ 733,020	\$ 12,034,215
Inventory	-	66,183	66,183
Accounts receivable:			
Taxes - current	454,742	-	454,742
Taxes - delinquent	14,720	-	14,720
Intergovernmental - State	45,773	-	45,773
Intergovernmental - Indirect Federal	319,681	-	319,681
Prepaid expenses	58,830	-	58,830
Total current assets	12,194,941	799,203	12,994,144
<u>Capital Assets, Net</u>			
Capital assets, net	90,855,493	570,456	91,425,949
Total Assets	103,050,434	1,369,659	104,420,093
Deferred Outflows of Resources			
Deferred amount on refunding	1,528,522	-	1,528,522
Deferred outflows related to pensions - CERS	1,575,673	415,878	1,991,551
Total Deferred Outflows of Resources	3,104,195	415,878	3,520,073
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	552,991	28	553,019
Accrued salaries and benefits payable	415,714	-	415,714
Unearned revenue	956,183	-	956,183
Interest payable	253,571	-	253,571
Current portion of bond obligations	3,790,000	-	3,790,000
Current portion of capital lease obligations	86,150	-	86,150
Current portion of accrued sick leave	101,119	-	101,119
Total Current Liabilities	6,155,728	28	6,155,756
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	63,325,000	-	63,325,000
Less: bond discount	(552,403)	-	(552,403)
Noncurrent portion of capital lease obligations	220,761	-	220,761
Noncurrent portion of accrued sick leave	540,307	-	540,307
Net pension liability - CERS	8,446,360	2,231,718	10,678,078
Total Noncurrent Liabilities	71,980,025	2,231,718	74,211,743
Total Liabilities	78,135,753	2,231,746	80,367,499
Deferred Inflows of Resources			
Deferred inflows related to pensions - CERS	669,691	176,947	846,638
Net Position			
Net investment in capital assets	23,985,985	570,456	24,556,441
Restricted for:			
Construction	6,589,163	-	6,589,163
Unrestricted	(3,225,963)	(1,193,612)	(4,419,575)
Total Net Position	\$ 27,349,185	\$ (623,156)	\$ 26,726,029

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

NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

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	\$ 26,448,306	\$ 191,150	\$ 2,221,857	\$ -	\$ (24,035,299)	\$ -	\$ (24,035,299)
Support Services:							
Student	1,844,520	-	-	-	(1,844,520)	-	(1,844,520)
Instruction staff	1,866,949	-	-	-	(1,866,949)	-	(1,866,949)
District administration	1,072,970	-	-	-	(1,072,970)	-	(1,072,970)
School administrative	2,963,235	-	-	-	(2,963,235)	-	(2,963,235)
Business	1,770,752	-	-	-	(1,770,752)	-	(1,770,752)
Plant operation and maintenance	4,531,052	-	-	-	(4,531,052)	-	(4,531,052)
Student transportation	3,470,001	3,451	92,902	-	(3,373,648)	-	(3,373,648)
Community service activities	343,084	-	-	-	(343,084)	-	(343,084)
Interest on long-term debt	1,810,877	-	-	870,245	(940,632)	-	(940,632)
Total Governmental Activities	46,121,746	194,601	2,314,759	870,245	(42,742,141)	-	(42,742,141)
Business-Type Activities:							
Food service	3,074,804	714,615	2,150,666	-	-	(209,523)	(209,523)
Child care	692,679	554,812	111,171	-	-	(26,696)	(26,696)
Total Business-Type Activities	3,767,483	1,269,427	2,261,837	-	-	(236,219)	(236,219)
Total Primary Government	\$ 49,889,229	\$ 1,464,028	\$ 4,576,596	\$ 870,245	(42,742,141)	(236,219)	(42,978,360)
General revenues:							
Taxes:							
Property taxes					13,028,207	-	13,028,207
Motor vehicles taxes					1,306,787	-	1,306,787
Utility taxes					1,671,382	-	1,671,382
Distilled spirits tax					2,361,393	-	2,361,393
Investment earnings					439	-	439
State aid formula grants					25,425,696	-	25,425,696
Gain (loss) on sale of equipment					55,593	-	55,593
Miscellaneous					160,718	-	160,718
Total general revenues					44,010,215	-	44,010,215
Transfers					-	-	-
Change In Net Position					1,268,074	(236,219)	1,031,855
Net Position - Beginning (Restated See Note R)					26,081,111	(386,937)	25,694,174
Net Position - Ending					\$ 27,349,185	\$ (623,156)	\$ 26,726,029

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

NELSON COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2016

	General Fund	Special Revenue Fund	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets:						
Cash and cash equivalents	\$ 3,673,129	\$ 873,775	\$ 6,754,291	\$ -	\$ -	\$ 11,301,195
Accounts receivable	515,236	319,681	-	-	-	834,917
Prepaid expenses	58,830	-	-	-	-	58,830
Total assets	\$ 4,247,195	\$ 1,193,456	\$ 6,754,291	\$ -	\$ -	\$ 12,194,942
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable	\$ 387,864	\$ -	\$ 165,128	\$ -	\$ -	\$ 552,992
Cash overdraft	-	-	-	-	-	-
Accrued liabilities	415,713	-	-	-	-	415,713
Unearned revenue	-	956,184	-	-	-	956,184
Total liabilities	803,577	956,184	165,128	-	-	1,924,889
Fund Balances:						
<u>Nonspendable:</u>						
Prepaid expenses	58,830	-	-	-	-	58,830
<u>Spendable:</u>						
Restricted	-	226,568	6,589,163	-	-	6,815,731
Committed	1,270,756	-	-	-	-	1,270,756
Assigned	19,281	10,704	-	-	-	29,985
Unassigned	2,094,751	-	-	-	-	2,094,751
Total Fund Balances	3,443,618	237,272	6,589,163	-	-	10,270,053
Total liabilities and fund balances	\$ 4,247,195	\$ 1,193,456	\$ 6,754,291	\$ -	\$ -	\$ 12,194,942

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, 2016

Total fund balance per fund financial statements		\$ 10,270,053
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.		90,855,493
Deferred outflows of resources and deferred inflows of resources related to the District's proportionate share of these amounts reported by the CERS pension plan are reported in the governmental activities in the Statement of Net Position.		
Deferred outflows of resources - CERS	\$ 1,575,673	
Deferred inflows of resources - CERS	<u>(669,691)</u>	905,982
Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position.		
Bonds payable	(67,115,000)	
Bond discount - unamortized	552,403	
Deferred amount on refunding (deferred outflow of resources)	1,528,522	
Interest payable	(253,571)	
Capital lease obligations	(306,911)	
Net pension liability - CERS	(8,446,360)	
Accrued sick leave	<u>(641,426)</u>	<u>(74,682,343)</u>
Net position for governmental activities		<u>\$ 27,349,185</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, 2016

	General Fund	Special Revenue Fund	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
From local sources:						
Taxes:						
Property	\$ 9,318,207	\$ -	\$ -	\$ -	\$ 3,710,000	\$ 13,028,207
Motor vehicle	1,306,787	-	-	-	-	1,306,787
Utilities	1,671,382	-	-	-	-	1,671,382
Distilled spirits tax	2,361,393	-	-	-	-	2,361,393
Tuition and fees	1,760	189,390	-	-	-	191,150
Earnings on investments	439	-	-	-	-	439
Other local revenues	138,133	184,727	1,748	-	-	324,608
Intergovernmental - state	22,503,586	1,538,074	-	870,246	1,252,046	26,163,952
Intergovernmental - federal	-	2,286,308	-	-	-	2,286,308
Total revenues	<u>37,301,687</u>	<u>4,198,499</u>	<u>1,748</u>	<u>870,246</u>	<u>4,962,046</u>	<u>47,334,226</u>
Expenditures:						
Instruction	20,736,747	2,753,515	-	-	-	23,490,262
Support services:						
Student	1,579,853	322,866	-	-	-	1,902,719
Instruction staff	1,529,954	326,719	-	-	-	1,856,673
District administration	1,104,725	-	-	-	-	1,104,725
School administrative	2,855,850	-	-	-	-	2,855,850
Business	1,395,926	184,958	-	-	-	1,580,884
Plant operation and maintenance	4,025,322	12,345	-	-	-	4,037,667
Student transportation	2,767,733	410,468	-	-	-	3,178,201
Facilities acquisition and maintenance	-	-	679,889	-	-	679,889
Community service activities	-	341,550	-	-	-	341,550
Debt service:						
Principal	409,765	-	-	3,610,000	-	4,019,765
Interest	104,639	-	-	1,577,521	-	1,682,160
Bond issue costs	-	-	54,600	74,247	-	128,847
Total Expenditures	<u>36,510,514</u>	<u>4,352,421</u>	<u>734,489</u>	<u>5,261,768</u>	<u>-</u>	<u>46,859,192</u>
Excess (deficit) of revenues over expenditures	<u>791,173</u>	<u>(153,922)</u>	<u>(732,741)</u>	<u>(4,391,522)</u>	<u>4,962,046</u>	<u>475,034</u>
Other financing sources (uses)						
Proceeds from sale of bonds	-	-	6,525,000	8,905,000	-	15,430,000
Payment to refunded bonds escrow agent	-	-	-	(8,769,236)	-	(8,769,236)
Bond discount	-	-	(92,851)	(61,517)	-	(154,368)
Proceeds from sale of fixed assets	55,953	-	-	-	-	55,953
Operating transfers in	-	391,194	644,771	4,317,275	-	5,353,240
Operating transfers out	(391,194)	-	-	-	(4,962,046)	(5,353,240)
Total other financing sources (uses)	<u>(335,241)</u>	<u>391,194</u>	<u>7,076,920</u>	<u>4,391,522</u>	<u>(4,962,046)</u>	<u>6,562,349</u>
Net change in fund balances	<u>455,932</u>	<u>237,272</u>	<u>6,344,179</u>	<u>-</u>	<u>-</u>	<u>7,037,383</u>
Fund balance, July 1, 2015	<u>2,987,686</u>	<u>-</u>	<u>244,984</u>	<u>-</u>	<u>-</u>	<u>3,232,670</u>
Fund balance, June 30, 2016	<u>\$ 3,443,618</u>	<u>\$ 237,272</u>	<u>\$ 6,589,163</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,270,053</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, 2016

Net change in total fund balances per fund financial statements		\$	7,037,383
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 capital outlays exceed depreciation for the year.			
Capital expenditures	\$	1,621,953	
Depreciation		<u>(3,954,956)</u>	(2,333,003)
Bond and capital lease proceeds are reported as revenues in this fund statement because they create current financial resources, but they are separated and shown as long-term debt on the statement of net position.			
Bond proceeds			(15,430,000)
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.			
Principal payments on bonds and payments to escrow agent		12,379,236	
Net effects of bond premiums, discounts, and deferred amounts on refunding		12,559	
Principal payments for capital leases		<u>409,765</u>	12,801,560
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		141,941	
Sick leave		(135,832)	
Claims payable KSBIT		100,180	
Pension expense related to changes in the net pension liability and the net changes in deferred inflows of resources and deferred outflows of resources for CERS		<u>(914,155)</u>	<u>(807,866)</u>
Change in net position of governmental activities		\$	<u>1,268,074</u>

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

JUNE 30, 2016

	Food Service Fund	Child Care Fund	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 476,230	\$ 256,790	\$ 733,020
Inventory	66,183	-	66,183
Total current assets	542,413	256,790	799,203
<u>Capital Assets, Net</u>			
Capital assets, net	570,456	-	570,456
Total assets	<u>\$ 1,112,869</u>	<u>\$ 256,790</u>	<u>\$ 1,369,659</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions - CERS	<u>\$ 308,451</u>	<u>\$ 107,427</u>	<u>\$ 415,878</u>
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 28	\$ -	\$ 28
Due to other funds	-	-	-
Total current liabilities	28	-	28
<u>Non-Current Liabilities</u>			
Net pension liability CERS	1,655,102	576,616	2,231,718
Total liabilities	<u>\$ 1,655,130</u>	<u>\$ 576,616</u>	<u>\$ 2,231,746</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions - CERS	<u>\$ 131,229</u>	<u>\$ 45,718</u>	<u>\$ 176,947</u>
Net Position			
Net investment in capital assets	570,456	-	570,456
Unrestricted	(935,495)	(258,117)	(1,193,612)
Total net position	<u>\$ (365,039)</u>	<u>\$ (258,117)</u>	<u>\$ (623,156)</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, 2016

	Food Service Fund	Child Care Fund	Total
Operating revenues:			
Lunchroom sales	\$ 714,615	\$ -	\$ 714,615
Tuition and fees	-	554,812	554,812
Other operating revenues	-	-	-
Total operating revenues	714,615	554,812	1,269,427
Operating expenses:			
Salaries and wages	1,631,298	641,674	2,272,972
Materials and supplies	1,281,129	43,286	1,324,415
Depreciation	124,583	-	124,583
Other operating expenses	37,794	7,719	45,513
Total operating expenses	3,074,804	692,679	3,767,483
Income (loss) from operations	(2,360,189)	(137,867)	(2,498,056)
Non-operating revenues (expenses):			
Federal grants	1,669,718	-	1,669,718
State grants	301,750	111,171	412,921
Donated commodities	179,198	-	179,198
Total non-operating revenues (expenses)	2,150,666	111,171	2,261,837
Change in net position	(209,523)	(26,696)	(236,219)
Net position, July 1, 2015, as previously reported	1,142,922	220,938	1,363,860
Prior Period Adjustment (See Note R)	(1,298,438)	(452,359)	(1,750,797)
Net position, July 1, 2015 (restated)	(155,516)	(231,421)	(386,937)
Net position, June 30, 2016	<u>\$ (365,039)</u>	<u>\$ (258,117)</u>	<u>\$ (623,156)</u>

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, 2016

	Food Service Fund	Child Care Fund	Total
Cash Flows From Operating Activities			
Cash received from:			
Lunchroom sales	\$ 714,615	\$ -	\$ 714,615
Tuition and fees	-	554,812	554,812
Cash paid to / for:			
Employees	(1,181,252)	(467,955)	(1,649,207)
Supplies	(1,103,820)	(43,286)	(1,147,106)
Other activities	(37,794)	(7,719)	(45,513)
Net cash provided by (used in) operating activities	(1,608,251)	35,852	(1,572,399)
Cash Flows From Non-Capital Financing Activities			
Federal grants	1,669,718	-	1,669,718
State grants	31,146	-	31,146
Transfers from (to) other funds	-	-	-
Net cash provided by (used in) non-capital financing activities	1,700,864	-	1,700,864
Cash Flows From Capital & Related Financing Activities			
Purchases of capital assets	(525)	-	(525)
Net increase (decrease) in cash and cash equivalents	92,088	35,852	127,940
Balances, beginning of year	384,142	220,938	605,080
Balances, end of year	\$ 476,230	\$ 256,790	\$ 733,020
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income	\$ (2,360,189)	\$ (137,867)	\$ (2,498,056)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	124,583	-	124,583
Donated commodities	179,198	-	179,198
State on-behalf payments	270,604	111,171	381,775
GASB 68 pension expense	179,442	62,548	241,990
Change in assets and liabilities:			
Inventory	(1,917)	-	(1,917)
Accounts payable	28	-	28
Net cash provided by (used in) operating activities	(1,608,251)	\$ 35,852	\$ (1,572,399)
Schedule of Non-Cash Transactions:			
Donated commodities	\$ 179,198	\$ -	\$ 179,198
State on-behalf payments	\$ 270,604	\$ 111,171	\$ 381,775
CERS Pension payments	\$ 112,962	\$ 39,321	\$ 152,283

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2016

	Agency Funds
Assets	
Cash and cash equivalents	\$ 678,369
Accounts receivable	-
Total Assets	\$ 678,369
Liabilities	
Accounts payable	\$ -
Due to student groups	678,369
Total Liabilities	678,369
Net Position Held In Trust	\$ -

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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.

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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.

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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 62. 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.
 - 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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting

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

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

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

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

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

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2016, to finance the General Fund operations were \$0.740 per \$100 valuation for real property, \$0.740 per \$100 valuation for business personal property and \$0.548 per \$100 valuation for motor vehicles.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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, 2016

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, 2016 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.

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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Pensions

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

Fund Balances

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

- *Nonspendable fund balance* - amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation.
- *Committed fund balance* – amounts constrained to specific purposes by the District itself, using its decision making authority to be reported as committed, amounts cannot be used for any other purpose unless the District takes action to remove or change the constraint.
- *Assigned fund balance* - amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The Board and its designees (of which there are none) have the authority to assign amounts to be used for specific purposes.
- *Unassigned fund balance* - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position

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

Operating Revenues

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

Contributions of Capital

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

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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 \$12,034,215. \$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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE C – CASH AND CASH EQUIVALENTS – CONTINUED

Breakdown per financial statements:

Governmental Funds	\$	11,301,195
Proprietary Funds		<u>733,020</u>
	\$	<u><u>12,034,215</u></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 \$678,369.

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.

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, 2016, the District did not hold any investments in excess of this limit.

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE D – DEPOSITS AND INVESTMENTS – CONTINUED

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.

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.

NOTE E – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

Governmental Activities	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Non-depreciable assets:				
Land	\$ 2,921,133	\$ -	\$ -	\$ 2,921,133
Construction in process	25,486	746,780	-	772,266
Depreciable assets:				
Land Improvements	123,218	-	-	123,218
Buildings and improvements	120,257,713	48,983	-	120,306,696
Technology equipment	3,302,544	237,414	28,316	3,511,642
Vehicles	6,240,076	497,403	703,204	6,034,275
General equipment	2,215,877	91,373	-	2,307,250
Totals at historical cost	135,086,047	1,621,953	731,520	135,976,480
Accumulated depreciation:				
Land Improvements	2,218	6,070	-	8,288
Buildings and improvements	34,033,598	3,157,681	-	37,191,279
Technology equipment	2,359,279	307,293	28,316	2,638,256
Vehicles	4,146,821	393,849	703,204	3,837,466
General equipment	1,355,635	90,063	-	1,445,698
Total accumulated depreciation	41,897,551	3,954,956	731,520	45,120,987
Governmental activities capital assets, net	\$ 93,188,496	\$ (2,333,003)	\$ -	\$ 90,855,493

Depreciation was charged to government functions as follows:

Instruction	\$ 2,874,317
District administration	53,724
School administration	4,906
Business support	91,005
Plant	554,008
Transportation	376,996
Total	\$ 3,954,956

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE E – CAPITAL ASSETS – CONTINUED

Business-Type Activities	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Depreciable assets:				
Technology equipment	\$ 72,149	\$ 525	\$ 29,697	\$ 42,977
General equipment	2,029,287	-	1,800	2,027,487
Totals at historical cost	2,101,436	525	31,497	2,070,464
Accumulated depreciation:				
Technology equipment	67,974	1,976	29,697	40,253
General equipment	1,338,948	122,607	1,800	1,459,755
Total accumulated depreciation	1,406,922	124,583	31,497	1,500,008
Business-type activities capital assets, net	\$ 694,514	\$ (124,058)	\$ -	\$ 570,456

Construction in process totaling \$25,486 is related to the renovation and expansion on the Nelson County Early Learning Center. As of June 30, 2016, the remaining commitment to complete the project totals approximately \$2.8 million.

NOTE F – LONG-TERM OBLIGATIONS

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

Issue Date	Original Proceeds	Interest Rates
2004	\$ 3,885,000	2.0% - 3.8%
2006	2,890,000	3.4% - 4.0%
2007	8,475,000	3.75%
2009	8,250,000	1.4% - 4.0%
2010 Ref	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 Ref	8,670,000	0.75% - 2.375%
2014 Ref	18,770,000	2.0% - 3.5%
2014 EN	3,420,000	1.5% - 3.7%
2015 A	8,485,000	2.0% - 3.0%
2015 B	3,485,000	2.0% - 2.45%
2016 A Ref	8,905,000	2.0% - 2.5%
2016 B	6,525,000	2.0% - 3.0%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Nelson County 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, 2016

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

In February 2016, the Board issued \$8,905,000 of 2016 School Building Revenue Refunding Bonds with interest rates ranging from 2.0% - 2.5% to advance refund the 2006 Series Bonds principal amounts of \$1,820,000 with interest rates ranging from 3.4% - 4.0% and to advance refund the 2007 Series Bonds principal amount of \$6,490,000 with interest rate of 3.75%. The District used the net proceeds along with other resources to purchase state and local government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2006 and 2007 series bonds. As a result, that portion of the 2006 and 2007 series bonds is considered defeased, and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$8,310,000 at June 30, 2016.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$583,706. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2027 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 12 years by \$488,283.

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, 2016 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
2017	\$ 3,087,368	\$ 1,648,824	\$ 702,632	\$ 175,181	\$ 3,790,000	\$ 1,824,005
2018	3,163,312	1,581,692	671,688	160,996	3,835,000	1,742,688
2019	3,239,740	1,509,228	685,260	147,644	3,925,000	1,656,872
2020	3,325,070	1,435,706	699,930	133,185	4,025,000	1,568,891
2021	3,405,375	1,361,889	714,625	118,251	4,120,000	1,480,140
2022 - 2026	18,545,155	5,399,900	2,959,845	358,937	21,505,000	5,758,837
2027 - 2031	20,035,213	2,386,600	1,024,787	96,586	21,060,000	2,483,186
2032 - 2035	4,691,839	414,627	163,161	14,972	4,855,000	429,599
	<u>\$ 59,493,072</u>	<u>\$ 15,738,466</u>	<u>\$ 7,621,928</u>	<u>\$ 1,205,752</u>	<u>\$ 67,115,000</u>	<u>\$ 16,944,218</u>

Capital Lease Obligations

In August 2015, the District entered capital lease participation agreements issued by the Kentucky Interlocal School Transportation Association (KISTA) for the purchase of four school buses. During 2016, the District paid off the remaining balance of the KISTA lease.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

In August 2015, the District entered into a capital lease agreement for the purchase of copier/fax/scanning equipment to be used District-wide. Future minimum lease payments under the terms of the lease are as follows:

	Year Ending June 30	
	2017	101,148
	2018	101,148
	2019	101,148
	2020	33,717
		<u>337,161</u>
Less: amount representing interest		<u>(30,250)</u>
Present value of minimum lease payments		<u>\$ 306,911</u>
Current maturities		\$ 86,150
Non-current maturities		<u>220,761</u>
		<u>\$ 306,911</u>

The net book value of the equipment at June 30, 2016 is \$277,180

Capital assets under capital leases are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

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.

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amounts due in one year
Revenue bonds payable	\$ 63,605,000	\$ 15,430,000	\$ 11,920,000	\$ 67,115,000	\$ 3,790,000
KISTA capital lease obligation	328,296	-	328,296	-	-
Other capital lease obligation	388,380	-	81,469	306,911	86,150
Claims payable - KSBIT	120,216	-	120,216	-	-
Net Pension Liability - CERS	8,201,309	2,476,769	-	10,678,078	-
Accrued sick leave	578,192	150,330	222,928	505,594	101,119
	<u>\$ 73,221,393</u>	<u>\$ 18,057,099</u>	<u>\$ 12,672,909</u>	<u>\$ 78,605,583</u>	<u>\$ 3,977,269</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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016, the District had \$6,589,163 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, 2016 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 \$29,985 assigned for open purchase orders encumbered at June 30, 2016.

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

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

NOTE H – RETIREMENT PLANS

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – RETIREMENT PLANS – CONTINUED

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Required contributions by the employee are based on the tier:

Required Contribution

Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

General information about the Teachers' Retirement System of the State of Kentucky ("KTRS")

Plan description—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – RETIREMENT PLANS – CONTINUED

Benefits provided—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

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

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 7.625% of their salaries to the Retirement System. University employees are required to contribute 9.105% of their salaries to the Retirement System.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 16.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 16.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – RETIREMENT PLANS – CONTINUED

Medical Insurance Plan

Plan description—In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy — The post-employment medical benefit provided by KTRS is financed on a prefunded basis beginning July 1, 2010 with the implementation of the “Shared Responsibility” legislation. In order to fund medical benefits, active member contributions are matched by the state at .75% of members’ gross salaries. Members contributed 1.75% of gross payroll to the KTRS medical plan and beginning July 1, 2010, the contribution increased incrementally to 3.75% on July1, 2015 under the Shared Responsibility Plan. Also, premiums collected from retirees and investment income contributes to funding the medical plan.

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

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District’s proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability – CERS	\$ 10,678,078
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	<u>144,669,837</u>
Total	<u>\$ 155,347,915</u>

The net pension liability for each plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District’s proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District’s proportion was 0.24835 percent.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – RETIREMENT PLANS – CONTINUED

For the year ended June 30, 2016, the District recognized pension expense of \$1,137,287 related to CERS and \$2,991,970 related to KTRS. The District also recognized revenue of \$2,991,970 for KTRS support provided by the Commonwealth. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred inflows of Resources
<u>CERS:</u>		
Differences between expected and actual experience	\$ 88,739	\$ -
Changes of assumptions	1,076,768	-
Net difference between projected and actual earnings on pension plan investments	95,720	732,372
Changes in proportion and differences between District contributions and proportionate share of contributions	-	114,266
District contributions subsequent to the measurement date	730,324	-
	<u>\$ 1,991,551</u>	<u>\$ 846,638</u>

\$730,324 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ 46,299
2017	46,299
2018	46,299
2019	46,299
2020	229,392

Actuarial assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS	KTRS
Inflation	3.25%	3.50%
Salary Increases	4.00%	4.0-8.2%
Investment rate of return	7.50%	7.50%

For CERS, Mortality rates were based on the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – RETIREMENT PLANS – CONTINUED

For KTRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS' investment consultant, are summarized in the following table

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	- 0.25%
	<u>100%</u>	

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – RETIREMENT PLANS – CONTINUED

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U. S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
	<u>100%</u>	

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 4.88%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
District's proportionate share of the net pension liability	\$ 13,631,893	\$ 10,678,078	\$ 8,148,397
KTRS	3.88%	4.88%	5.88%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – RETIREMENT PLANS – CONTINUED

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

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.

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 2014 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. In August 2014, the District was notified of the final assessment of \$160,288. The claim was to be paid over a seven-year period. However, prior to June 30, 2016 the District paid the claim in full.

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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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.

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

The Food Service Fund and Child Care Fund had a deficit net position at June 30, 2016 in the amounts of \$366,956 and \$258,117, respectively. The deficit net position is a result of the recording of the net pension liability for CERS as part of the adoption of GASB Statement 68.

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	\$	211,440
Child Care Fund		26,696

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).

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year ending June 30, 2016:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Technology Match	\$ 391,194
Building Fund	Construction Fund	Construction Projects	\$ 225,803
Capital Outlay Fund	Construction Fund	Construction Projects	\$ 418,968
Building Fund	Debt Service Fund	Debt Service	\$ 4,317,275

NOTE P – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance as well as debt service on-behalf payments from the Kentucky School Facility Construction Commission for debt service. The amount received for the fiscal year ended June 30, 2016 was \$8,346,802. These payments were recorded as follows:

General Fund	\$ 7,094,783
Debt Service Fund	870,245
Food Service Fund	270,604
Child Care Fund	111,170
	<u>\$ 8,346,802</u>

On-behalf payments consisted of the following: \$2,991,970 related to KTRS, \$4,398,912 related to payroll items and benefits (primarily health insurance) net of federal reimbursements, \$85,675 related to technology, and \$870,245 related to debt service.

NOTE Q – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 28, 2016, the date which the financial statements were available to be issued.

Subsequent to June 30, 2016, the District approved an increase in the property tax rate to 75.0 cents per \$100 in assessed value of real estate and personal property.

In September 2016, the District issued \$7,260,000 of Series 2016 B School Building Refunding Revenue Bonds with interest rates of 2.0% - 2.375% to advance refund the Series 2009 Series Bonds with interest rates ranging from 3.0% - 4.0%.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE R – PRIOR PERIOD ADJUSTMENTS

During 2016, the District noted certain errors related to the implementation of GASB 68 in the prior year related to CERS contributions and allocation of GASB 68 adjustments across all funds. The following summarizes the adjustments to beginning net position as a result of the correction and allocation:

	Governmental activities
Net position at June 30, 2015, as previously reported	\$ 24,615,772
Prior period adjustments:	
CERS contributions related to medical insurance reported as deferred outflows at 6/30/2015	(285,458)
Allocation of net pension liability, deferred outflows of resources, and deferred inflows of resources for CERS to proprietary funds	<u>1,750,797</u>
Net position at June 30, 2015, as restated	<u>\$ 26,081,111</u>

	Food Service Fund	Child Care Fund	Total Proprietary Funds
Net position at June 30, 2015, as previously reported	\$ 1,142,922	\$ 220,938	\$ 1,363,860
Prior period adjustment:			
Allocation of net pension liability, deferred outflows of resources, and deferred inflows of resources for CERS to proprietary funds	<u>(1,298,438)</u>	<u>(452,359)</u>	<u>(1,750,797)</u>
Net position at June 30, 2015, as restated	<u>\$ (155,516)</u>	<u>\$ (231,421)</u>	<u>\$ (386,937)</u>

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

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASBS No. 75 requires additional accounting and reporting for governments that provides other post-employment benefits (OPEB) other than pensions to its employees. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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

In June 2015, the GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is effective for periods beginning after June 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

1. Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
2. The gross dollar amount of taxes abated during the period
3. Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In December 2015, the GASB issued Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement is effective for periods beginning after December 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In December 2015, the GASB issued Statement 79, *Certain External Investment Pools and Pool Participants*. This statement is effective for periods beginning after December 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2016, the GASB issued Statement 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. This statement is effective for periods beginning after December 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2016, the GASB issued Statement 81, *Irrevocable Split-Interest Agreements*. This statement is effective for periods beginning after December 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2016, the GASB issued Statement 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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, 2016

	Budget			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Revenues:				
Taxes:				
Property	\$ 8,950,000	8,950,000	\$ 9,318,207	\$ 368,207
Motor vehicle	1,215,000	1,215,000	1,306,787	91,787
Utilities	1,725,000	1,725,000	1,671,382	(53,618)
Distilled spirits tax	1,995,000	1,995,000	2,361,393	366,393
Tuition and fees	-	-	1,760	1,760
Earnings on investments	-	-	439	439
Other local revenues	145,000	145,000	138,133	(6,867)
Intergovernmental - state	21,695,411	21,695,411	22,503,586	808,175
Intergovernmental - federal	-	-	-	-
Total Revenues	<u>35,725,411</u>	<u>35,725,411</u>	<u>37,301,687</u>	<u>1,576,276</u>
Expenditures:				
Instruction	20,137,244	20,137,244	20,736,747	(599,503)
Support services:	-	-	-	-
Student	1,463,039	1,463,039	1,579,853	(116,814)
Instruction staff	1,635,977	1,635,977	1,529,954	106,023
District administration	1,399,133	1,399,133	1,104,725	294,408
School administrative	2,708,374	2,708,374	2,855,850	(147,476)
Business	1,447,300	1,447,300	1,395,926	51,374
Plant operation and maintenance	3,479,334	3,479,334	4,025,322	(545,988)
Student transportation	3,006,058	3,006,058	2,767,733	238,325
Debt service:	-	-	-	-
Principal	172,005	172,005	409,765	(237,760)
Interest	-	-	104,639	(104,639)
Total Expenditures	<u>35,448,464</u>	<u>35,448,464</u>	<u>36,510,514</u>	<u>(1,062,050)</u>
Excess (deficit) of revenues over expenditures	<u>276,947</u>	<u>276,947</u>	<u>791,173</u>	<u>514,226</u>
Other financing sources (uses)				
Proceeds from sale of fixed assets	-	-	55,953	55,953
Contingency	(1,650,000)	(1,650,000)	-	1,650,000
Operating transfers in	100,000	100,000	-	(100,000)
Operating transfers out	(284,951)	(284,951)	(391,194)	(106,243)
Total other financing sources (uses)	<u>(1,834,951)</u>	<u>(1,834,951)</u>	<u>(335,241)</u>	<u>1,499,710</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (1,558,004)</u>	<u>\$ (1,558,004)</u>	<u>\$ 455,932</u>	<u>\$ 2,013,936</u>
Fund balance, July 1, 2015	1,558,004	1,558,004	2,987,686	
Fund balance, June 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,443,618</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, 2016

	Budget			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Revenues:				
Tuition and fees	\$ -	\$ -	\$ 189,390	\$ 189,390
Other local revenues	38,000	38,000	184,727	146,727
Intergovernmental - state	1,500,301	1,500,301	1,538,074	37,773
Intergovernmental - direct federal	2,328,369	2,328,369	2,286,308	(42,061)
Total Revenues	<u>3,866,670</u>	<u>3,866,670</u>	<u>4,198,499</u>	<u>331,829</u>
Expenditures:				
Instruction	2,588,563	2,588,563	2,753,515	(164,952)
Support services:	-	-	-	-
Student	363,141	363,141	322,866	40,275
Instruction staff	239,427	239,427	326,719	(87,292)
Business	135,000	135,000	184,958	(49,958)
Plant operation and maintenance	-	-	12,345	(12,345)
Student transportation	321,025	321,025	410,468	(89,443)
Community Service Activities	294,514	294,514	341,550	(47,036)
Total Expenditures	<u>3,941,670</u>	<u>3,941,670</u>	<u>4,352,421</u>	<u>(410,751)</u>
Excess (Deficit) Of Revenues Over Expenditures	<u>(75,000)</u>	<u>(75,000)</u>	<u>(153,922)</u>	<u>(78,922)</u>
Other Financing Sources (Uses)				
Operating transfers in	75,000	75,000	391,194	316,194
Operating transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>75,000</u>	<u>75,000</u>	<u>391,194</u>	<u>316,194</u>
Excess (Deficit) Of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 237,272</u>	<u>\$ 237,272</u>
Fund Balance, July 1, 2015	<u>-</u>	<u>-</u>	<u>-</u>	
Fund Balance, June 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 237,272</u>	

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

FOR THE YEAR ENDED JUNE 30, 2016

KTRS

	2016	[*] 2015
District's proportion of the net pension liability	0.000000%	0.000000%
District's proportionate share of the net pension liability	\$ -	\$ -
Commonwealth's proportionate share of the net pension liability	<u>144,669,837</u>	<u>122,991,359</u>
Total	<u>\$ 144,669,837</u>	<u>\$ 122,991,359</u>
District's covered-employee payroll	\$ 19,508,265	\$ 19,139,900
District's proportionate share of the net pension liability as a percentage of its covered payroll	0.0%	0.0%
Plan fiduciary net position as a percentage of the total pension liability	42.49%	45.59%

CERS

	2016	[*] 2015
District's proportion of the net pension liability	0.24835%	0.25279%
District's proportionate share of the net pension liability	\$ 10,678,078	\$ 8,201,309
District's covered-employee payroll	\$ 5,776,286	\$ 5,802,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	184.86%	141.35%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%

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

Note: The amounts presented for each fiscal year were determined as of the prior fiscal year-end June 30, 2015 and 2014.

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULES OF DISTRICT CONTRIBUTIONS

LAST 10 FISCAL YEARS

KTRS

	2016	[*] 2015
Contractually required contribution	\$ 553,713	\$ 581,929
Contributions in relation to the contractually required contribution	<u>553,713</u>	<u>581,929</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 19,508,265	\$ 19,139,900
Contributions as a percentage of covered employee payroll	2.8%	3.0%

CERS

	2016	[*] 2015
Contractually required contribution	\$ 730,342	\$ 739,754
Contributions in relation to the contractually required contribution	<u>730,342</u>	<u>739,754</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 5,776,286	\$ 5,802,000
Contributions as a percentage of covered employee payroll	12.6%	12.7%

Note: The amounts presented for each fiscal year were determined as of the prior fiscal year-end June 30, 2015 and 2014.

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

KTRS

Changes of Benefit Terms: None

Changes of Assumptions: In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability, and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

CERS

Changes of benefit terms: The following changes were made by the Kentucky Legislature and reflected in the CERS valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

Changes of assumptions: The following changes were made by the Kentucky Legislature and reflected in the CERS valuation performed as of June 30 listed below:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

See accompanying report of independent auditors.

SUPPLEMENTARY INFORMATION

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

JUNE 30, 2016

	Capital Outlay Fund	Building Fund	Total
Assets:			
Cash and cash equivalents	\$ -	\$ -	\$ -
Accounts receivable	-	-	-
Total Assets & Resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities & Fund Balances:			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Restricted	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities & Fund Balances	<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, 2016

	Capital Outlay Fund	Building Fund	Total
Revenues:			
From Local Sources:			
Taxes:			
Property	\$ -	\$ 3,710,000	\$ 3,710,000
Intergovernmental - State	418,968	833,078	1,252,046
Total Revenues	<u>418,968</u>	<u>4,543,078</u>	<u>4,962,046</u>
Expenditures			
Plant Operation & Maintenance	-	-	-
Facilities Acquisition & Maintenance	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficit) of revenues over expenditures	418,968	4,543,078	4,962,046
Other financing sources (uses)			
Operating transfers out	<u>(418,968)</u>	<u>(4,543,078)</u>	<u>(4,962,046)</u>
Total other financing sources (uses)	<u>(418,968)</u>	<u>(4,543,078)</u>	<u>(4,962,046)</u>
Change in fund balances	-	-	-
Fund balance, July 1, 2015	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2016	<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, 2016

	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	\$ 53,999	\$ 43,152	\$ 31,780	\$ 57,131	\$ 16,049	\$ 53,548
Accounts receivable	-	-	-	-	-	-
Total assets	<u>\$ 53,999</u>	<u>\$ 43,152</u>	<u>\$ 31,780</u>	<u>\$ 57,131</u>	<u>\$ 16,049</u>	<u>\$ 53,548</u>
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to student groups	53,999	43,152	31,780	57,131	16,049	53,548
Total liabilities	<u>\$ 53,999</u>	<u>\$ 43,152</u>	<u>\$ 31,780</u>	<u>\$ 57,131</u>	<u>\$ 16,049</u>	<u>\$ 53,548</u>
	Nelson County High School	Bloomfield Elementary School	Thomas Nelson High School	Early Childhood Center	Horizons Academy	Total Agency Funds
Assets						
Cash and cash equivalents	\$ 218,062	\$ 62,532	\$ 140,165	\$ 794	\$ 1,157	\$ 678,369
Accounts receivable	-	-	-	-	-	-
Total assets	<u>\$ 218,062</u>	<u>\$ 62,532</u>	<u>140,165</u>	<u>794</u>	<u>1,157</u>	<u>678,369</u>
Liabilities						
Accounts payable	\$ -	\$ -	-	-	-	-
Due to student groups	218,062	62,532	140,165	794	1,157	678,369
Total liabilities	<u>\$ 218,062</u>	<u>\$ 62,532</u>	<u>\$ 140,165</u>	<u>\$ 794</u>	<u>\$ 1,157</u>	<u>\$ 678,369</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, 2016**

	Cash Balance July 1, 2015	Receipts	Disbursements	Cash Balance June 30, 2016	Due to Student Groups June 30, 2016
Bloomfield Middle School	\$ 55,225	\$ 157,449	\$ 158,675	\$ 53,999	\$ 53,999
New Haven Elementary School	49,347	82,995	89,190	43,152	43,152
Boston Elementary School	35,876	65,005	69,101	31,780	31,780
Old Ky Home Middle School	64,681	157,149	164,699	57,131	57,131
Cox's Creek Elementary School	20,563	130,097	134,611	16,049	16,049
Foster Heights Elementary School	51,905	99,862	98,219	53,548	53,548
Nelson County High School	208,549	554,787	545,274	218,062	218,062
Bloomfield Elementary School	68,675	60,630	66,773	62,532	62,532
Thomas Nelson High School	136,034	460,138	456,007	140,165	140,165
Nelson Co. Early Learning Center	1,787	6,536	7,529	794	794
Horizons Academy	1,566	1,137	1,546	1,157	1,157
Totals	<u>\$ 694,208</u>	<u>\$ 1,775,785</u>	<u>\$ 1,791,624</u>	<u>\$ 678,369</u>	<u>\$ 678,369</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, 2016

	Cash Balance July 1, 2015	Receipts	Disbursements	Cash Balance June 30, 2016	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2016
General Fund	1,664	867	1,282	\$ 1,249	\$ -	\$ 1,249
Corporate Analysis Charge	-	750	750	-	-	-
Board Tuition	-	6,871	6,781	90	-	90
Athletic Vending	2,326	3,346	5,142	530	-	530
Concessions	5,874	65,648	63,572	7,950	-	7,950
Teacher's Lounge/Admin	1,759	3,899	4,845	813	-	813
Board Parking Pass	-	1,010	1,010	-	-	-
Board Band	-	12,995	12,895	100	-	100
Band Fundraising	8,979	10,819	14,143	5,655	-	5,655
Board AP Test	-	39	39	-	-	-
AP Exam	-	11,192	11,192	-	-	-
Choir	-	2,747	2,269	478	-	478
Drama	6,730	10,228	6,222	10,736	-	10,736
Guidance	801	693	456	1,038	-	1,038
Special Education	734	570	387	917	-	917
Prom	4,578	10,362	11,565	3,375	-	3,375
Board Library	-	292	292	-	-	-
Nurse	1,433	128	380	1,181	-	1,181
Colorguard/Winterguard	1,528	-	1,270	258	-	258
Global Educ Tour Group	-	1,971	1,971	-	-	-
Board Textbook-L/D	-	317	317	-	-	-
Board Use of Building	4,497	4,190	8,687	-	-	-
Yearbook	39,988	5,558	2,965	42,581	-	42,581
Student Beverage-Vending	226	266	295	197	-	197
ROTC-Unit Funds	5,524	11,773	10,777	6,520	-	6,520
Board Instructional	-	12,600	12,600	-	-	-
Board Science Dept	-	9,333	9,333	-	-	-
Board Art	-	2,913	2,889	24	-	24
Art	315	260	221	354	-	354
Renaissance Class	56	-	56	-	-	-
PE Class	161	-	161	-	-	-
Graduate Class	1,467	-	605	862	-	862
Math Dept	69	-	69	-	-	-
Transition	732	454	597	589	-	589
Key Club	932	6,858	6,653	1,137	-	1,137
Beta Club	-	483	-	483	-	483
FBLA	-	7,972	7,074	898	-	898
Book Club	42	-	42	-	-	-
FFA	4,698	44,253	41,131	7,820	-	7,820
STLP	12	103	70	45	-	45
St Council Scholarship	-	-	-	-	-	-
National Honor Society	57	4,426	4,384	99	-	99
NHS Scholarship	14	-	14	-	-	-
Library Magazine	41	-	12	29	-	29
Student Council	2,925	2,989	3,685	2,229	-	2,229
FFA-Schol-Truck Ticket	4,122	2,570	6,117	575	-	575
Academic Team	100	265	360	5	-	5
CASA-SADD	267	-	267	-	-	-
FCA	351	-	30	321	-	321
FFA- Region Lincoln Trail	1,645	2,243	2,417	1,471	-	1,471
Board Floriculture	-	3,724	3,724	-	-	-
Board Food Science	-	814	814	-	-	-
Girls Golf	504	5,822	4,913	1,413	-	1,413
Girls Soccer	10,948	8,708	11,658	7,998	-	7,998

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, 2016

	Cash Balance July 1, 2015	Receipts	Disbursements	Cash Balance June 30, 2016	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2016
(Continued)						
Athletic	6,131	119,262	110,146	15,247	-	15,247
Board Athletics	-	1,118	1,118	-	-	-
Boy's Basketball	3,143	10,822	10,550	3,415	-	3,415
Turf Replacement Fund	34,624	24,388	434	58,578	-	58,578
Track/Cross Country	1,292	24,280	20,147	5,425	-	5,425
Pep Club/The End Zone	196	-	196	-	-	-
Boy's Soccer	2,188	5,794	5,880	2,102	-	2,102
Dance Team	210	1,200	201	1,209	-	1,209
Archery	969	1,125	926	1,168	-	1,168
Closed (CC)	7,821	-	7,821	-	-	-
Tennis	1,325	2,195	2,638	882	-	882
Baseball	7,576	4,707	6,918	5,365	-	5,365
Girls Softball	3,290	9,143	10,805	1,628	-	1,628
Volleyball	963	8,813	8,019	1,757	-	1,757
Boy's Golf	3,953	-	1,525	2,428	-	2,428
Swim Team	1,035	3,495	3,924	606	-	606
Cheerleaders	4,073	6,852	10,117	808	-	808
Bowling	140	4,419	3,787	772	-	772
Board Football	-	4,931	4,931	-	-	-
Lady Cards Basketball	1,953	27,376	28,613	716	-	716
Wrestling	768	2,874	3,604	38	-	38
Football	4,767	6,694	8,827	2,634	-	2,634
N.C. Elem Boys Bsktbll	703	27,420	27,150	973	-	973
Board Project Graduation	-	5,548	5,548	-	-	-
Project Graduation	3,905	24,196	27,141	960	-	960
FFA Alumni	1,425	4,026	4,120	1,331	-	1,331
Sub Total	208,549	613,999	604,486	218,062	-	218,062
Transfers	-	59,212	59,212	-	-	-
TOTAL	<u>\$ 208,549</u>	<u>\$ 554,787</u>	<u>\$ 545,274</u>	<u>\$ 218,062</u>	<u>\$ -</u>	<u>\$ 218,062</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, 2016

	Cash Balance July 1, 2015	Receipts	Disbursements	Cash Balance June 30, 2016	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2016
General	577	1,702	2,178	\$ 101	\$ -	\$ 101
Board Account	-	73,637	73,637	-	-	-
Laying the Foundation	322	-	-	322	-	322
Tuition	58	90	-	148	-	148
KYA	-	7,071	6,312	759	-	759
Junior Chef	74	-	-	74	-	74
Guidance	34	-	-	34	-	34
SEA	492	-	-	492	-	492
SOC	1,860	3,790	2,857	2,793	-	2,793
Concessions	7,155	58,258	53,666	11,747	-	11,747
Concession Equipment	2,196	4,237	1,035	5,398	-	5,398
Athletics	13,808	68,389	74,475	7,722	-	7,722
Staff Vending	360	3,746	3,589	517	-	517
Nurse	155	-	40	115	-	115
Pep Club	878	1,510	1,070	1,318	-	1,318
Ping Pong Club	63	116	179	-	-	-
Leadership Dynamics	2,850	27	-	2,877	-	2,877
STLP	8	-	-	8	-	8
FBLA	-	2,589	2,195	394	-	394
FCA	252	-	-	252	-	252
Key Club	3,261	-	228	3,033	-	3,033
General Care	220	-	-	220	-	220
Beta Club	3,729	15,521	14,664	4,586	-	4,586
Science/Engineering Club	-	290	-	290	-	290
Academic Team/FPS	-	475	475	-	-	-
Football	9,460	30,267	27,064	12,663	-	12,663
Volleyball	1,486	16,561	16,759	1,288	-	1,288
Boys Basketball	2,679	12,309	10,746	4,242	-	4,242
Boy's Soccer	5,505	6,250	9,828	1,927	-	1,927
Girl's Soccer	7,653	1,404	2,824	6,233	-	6,233
Golf	2,462	682	2,548	596	-	596
Bowling	2,836	2,757	5,247	346	-	346
Cross Country	800	13,467	11,804	2,463	-	2,463
Baseball	5,218	4,139	5,731	3,626	-	3,626
Wrestling	1,068	700	665	1,103	-	1,103
Girls Basketball	4,917	8,903	9,758	4,062	-	4,062
Archery	2,290	16,639	15,176	3,753	-	3,753
Girl's Softball	4,685	18,383	16,211	6,857	-	6,857
Swim Team	-	460	380	80	-	80
Cheerleading	2,899	10,483	11,848	1,534	-	1,534
Tennis	252	400	281	371	-	371
Dance Team	220	2,042	2,117	145	-	145
Band	2,949	12,890	14,252	1,587	-	1,587
Drama	712	1,828	1,415	1,125	-	1,125
General Store	-	56	56	-	-	-
FFA	2,170	14,657	16,487	340	-	340
Corn Maze	2,310	14,877	15,043	2,144	-	2,144
Dodge	857	1,625	858	1,624	-	1,624
FFA Alumni	4,647	4,682	4,380	4,949	-	4,949
Farm Bureau FFA	-	650	-	650	-	650
AP Test	2,287	15,914	16,165	2,036	-	2,036
Project Liftoff	314	14,266	14,373	207	-	207
Prom	5,708	8,102	4,142	9,668	-	9,668

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, 2016

	<u>Cash Balance July 1, 2015</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash Balance June 30, 2016</u>	<u>Accounts Receivable and due from other funds</u>	<u>Due to Student Groups June 30, 2016</u>
(Continued)						
Library	1,267	-	750	517	-	517
Yearbook	18,783	14,191	13,744	19,230	-	19,230
Art	359	290	90	559	-	559
Physical Ed	64	500	450	114	-	114
National Honor Society	825	1,458	1,357	926	-	926
Humanities	-	341	341	-	-	-
Sub Total	136,034	493,621	489,490	140,165	-	140,165
Transfers	-	33,483	33,483	-	-	-
TOTAL	<u>\$ 136,034</u>	<u>\$ 460,138</u>	<u>\$ 456,007</u>	<u>\$ 140,165</u>	<u>\$ -</u>	<u>\$ 140,165</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, 2016

<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			
<u>Title I Cluster</u>			
Title I - Part A Cluster	84.010	310AM	\$ 5,307
		3104M	3,426
		310AM	257,408
		310B	661,289
			<hr/>
TOTAL TITLE I CLUSTER			927,430
<u>Special Education Cluster (IDEA)</u>			
Special Education - Grants to State	84.027	337A	24,973
		337AP	20
		337B	786,680
		337BP	25,504
			<hr/>
Special Education - Preschool Grants	84.173	343B	43,153
		343AP	372
		343BP	4,070
			<hr/>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			884,772
<u>Vocational Education - Basic Grants to States</u>	84.048	348AA	8,494
		348AA	789
		348B	14,393
			<hr/>
			23,676
<u>Improving Teacher Quality - State Grants</u>	84.367	4014	66,857
		401A	194,765
		401B	29,947
			<hr/>
			291,569
<u>Race to the Top</u>	84.416	4521	9,474
<u>Twenty-First Century Community Learning Centers</u>	84.287	5504J	1,000
		5504U	5,000
		550A	75,000
		550AU	6,024
			<hr/>
			87,024
Total U.S. Department Of Education			<hr/>
			2,223,945
<u>U.S. Department Of Agriculture</u>			
Child Nutrition Cluster:			
Cash Assistance			
Passed through the Kentucky Department of Agriculture			
School Breakfast Program	10.553	090451999	428,968
National School Lunch Program	10.555	090451999	1,205,166
Summer Food Service	10.559	090451999	35,585
Noncash Assistance (Commodities)			
National School Lunch Program	10.555	090451999	179,198
Total U.S. Department Of Agriculture			<hr/>
			1,848,917
Total Federal Program Expenditures			<hr/>
			\$ 4,072,862

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2016

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 Compliance Supplement*. 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, 2016.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2016

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

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

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?

☐ yes ☒ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.553
10.555
10.559

Child Nutrition Cluster
School Breakfast Program
School Lunch Program
Summer Food Service

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2016

Section I – Summary of Auditor’s Results – Continued

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

Auditee qualified as low-risk auditee? X yes _____ no

Section II – Financial Statement Findings

No findings to report.

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, 2016

No findings reported.

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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, 2016, 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 October 28, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We also noted certain other matters that we reported to management of Nelson County School District in a separate letter dated October 28, 2016.

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
October 28, 2016

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

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

Report on Compliance for Each Major Federal Program

We have audited the Nelson County School District's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The Nelson County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Nelson County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

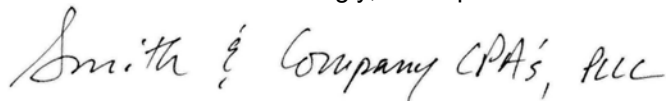
Report on Internal Control Over Compliance

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

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

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

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



Bardstown, Kentucky
October 28, 2016

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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, 2016, 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 October 28, 2016 contains our report on the District's internal control structure. This letter does not affect our report dated October 28, 2016 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
October 28, 2016

NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2016

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:	TN HS	FH	BMS	NC HS	OKH MS	BES	BS	CC
Missing invoice for selected disbursement (one instance)		√						√
Multiple receipt forms not signed by students	√			√	√			
Ticket Sales form not completed correctly					√			
Deficit balances noted for two activity accounts at 6/30/16			√					
Credit Card Sign In/Out Log missing Purchase Order Number(s)			√			√	√	
Using outdated version of Redbook Form “Credit Card Sign In/Out Log” (F-SA-13)			√			√	√	

Legend:

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
BES – Bloomfield Elementary 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, 2016

STATUS OF PRIOR YEAR FINDINGS

The chart below summarizes conditions we noted during our audit for the year ending June 30, 2015.

Conditions:	NH	TN HS	FH	BMS	NC HS	OKH MS	BES	BS	CC
Missing or incomplete fundraiser worksheets						√			
Multiple receipt forms not signed by students		√							
Inventory control sheets not completed or incomplete			√	√					
Sales tax paid on transaction(s)		√		√					
Check not properly voided									√
Credit Card Sign In/Out Log missing Purchase Order Number(s)	√	√	√		√		√	√	√
Credit Card Sign In/Out Log missing dates and/or signatures					√	√			√
Using outdated version of Redbook Form "Credit Card Sign In/Out Log" (F-SA-13)							√		

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
 BES – Bloomfield Elementary School
 BS – Boston School
 CC – Cox's Creek Elementary School

Current Status: The principals and bookkeepers for the above schools have made significant progress toward eliminating the above conditions. Also, all bookkeepers attend annual "Red Book" training courses.

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.