

NELSON COUNTY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION, AND
INDEPENDENT AUDITOR'S REPORTS

YEAR ENDED JUNE 30, 2017

NELSON COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits and
Members of the Board of Education
Nelson County School District
Bardstown, Kentucky 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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor, considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2017, the District adopted Governmental Accounting Standards Board 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*, Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement 77, *Tax Abatement Disclosures*, Statement 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, Statement 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement 14*, and Statement 81, *Irrevocable Split-Interest Agreements*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 4 – 10 and 49 – 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 2017, on our consideration of Nelson County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Nelson County School District's internal control over financial reporting and compliance.

Stiles, Carter & Associates

Certified Public Accountants
Bardstown, Kentucky
November 10, 2017

NELSON COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash and cash equivalents balance for the District for the year ended June 30, 2017 (FY17) was \$7.4 million, including a construction fund cash balance of \$5.1 million, a special revenue fund cash balance of approximately \$698 thousand, a food service fund cash balance of approximately \$624 thousand, and a child care fund cash balance of approximately \$304 thousand.
- The District’s property tax base is derived from residential growth and assessments. Property assessment values grew 4.8%. The District levied FY17 property tax rates of 75.1 cents per \$100 for real estate and tangible property. This rate reflects an increase of 1.1 cents above the FY16 rate of cents. The motor vehicle rate of 54.80 cents per \$100 of assessed value and the 3% utility tax rate remained unchanged from FY16.
- The District ended FY17 with an unassigned fund balance in the general fund of approximately \$2.4 million, reflecting an (8%) increase over the previous year.
- In September 2016, the Board refunded approximately \$6.6 million in bonds by issuing \$7,260,000 of 2016 B School Building Revenue Refunding Bonds. The District completed the refunding to reduce its total debt service payments over the next 12 years by approximately \$383,000.
- The District’s major construction projects for FY17 included the following projects in process at June 30, 2017 (1) Nelson Co. Early Childhood Center expansion, (2) Thomas Nelson High School Phase 3, and (3) Bloomfield Middle School Energy Improvement project. As of June 30, 2017, the remaining commitments to complete the projects total approximately \$8.02 million.
- Employees received a 1.5% pay increase in addition to normal step and rank increases.
- The District purchased six new buses in FY17 utilizing general fund cash, resulting in future
- As the District enters into FY18, budget concerns are focused on Kentucky’s pension crisis and the financial impact legislative actions will have on K-12 funding.

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.

NELSON COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017

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.

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 \$28.6 million as of June 30, 2017.

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

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 - 48 of this report.

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

NELSON COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017

Net Position

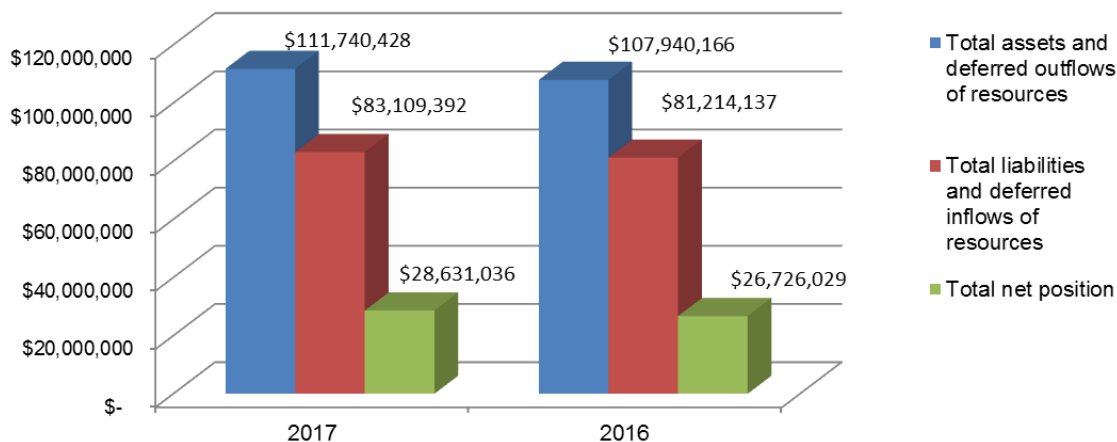
The 2017 Government-wide net position compared to 2016 is as follows:

**Net Position
(Table 1)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 10,629,897	\$ 12,194,941	\$ 989,013	\$ 799,203	\$ 11,618,910	\$ 12,994,144
Capital assets	95,016,394	90,855,493	520,387	570,456	95,536,781	91,425,949
Total assets	105,646,291	103,050,434	1,509,400	1,369,659	107,155,691	104,420,093
Deferred outflows of resources	4,024,053	3,104,195	560,684	415,878	4,584,737	3,520,073
Long-term debt	73,022,772	71,980,025	2,529,077	2,231,718	75,551,849	74,211,743
Other liabilities	7,313,362	6,155,728	62	28	7,313,424	6,155,756
Total liabilities	80,336,134	78,135,753	2,529,139	2,231,746	82,865,273	80,367,499
Deferred inflows of resources	192,262	669,691	51,857	176,947	244,119	846,638
Net position:						
Net investment in capital assets	29,800,520	23,985,985	520,387	570,456	30,320,907	24,556,441
Restricted	4,082,068	6,589,163	-	-	4,082,068	6,589,163
Unrestricted	(4,740,640)	(3,225,963)	(1,031,299)	(1,193,612)	(5,771,939)	(4,419,575)
Total net position	\$ 29,141,948	\$ 27,349,185	\$ (510,912)	\$ (623,156)	\$ 28,631,036	\$ 26,726,029

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

- Capital assets increased approximately \$4.1 million due to current year depreciation of \$4.0 million offset by FY2017 additions of approximately \$8.1 million primarily as a result of construction costs related to bus purchases and three ongoing school projects: (1) Nelson Co. Early Childhood Center expansion, (2) Thomas Nelson High School Phase 3, and (3) Bloomfield Middle School Energy Improvement project.
- Total long-term obligations for bonds increased \$310,000 as a result of issuing \$7.26 million in Series 2016 Series B Refunding bonds and \$3.48 million Series 2017 energy conservation project bonds. These were offset by \$6.615 million in bonds refunded and regularly schedules principal payments of \$3.815 million. The District's proportionate share of CERS reported net pension liability increased approximately \$1.2 million during fiscal year 2017. As of June 30, 2017, the District's proportionate share of the CERS net pension liability was \$11.9 million (as actuarially determined by CERS).



NELSON COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017

Change in Net Position

The following Table 2 presents the summary of changes in net position for the fiscal years ending June 30, 2017 and 2016.

Changes in Net Position
(Table 2)

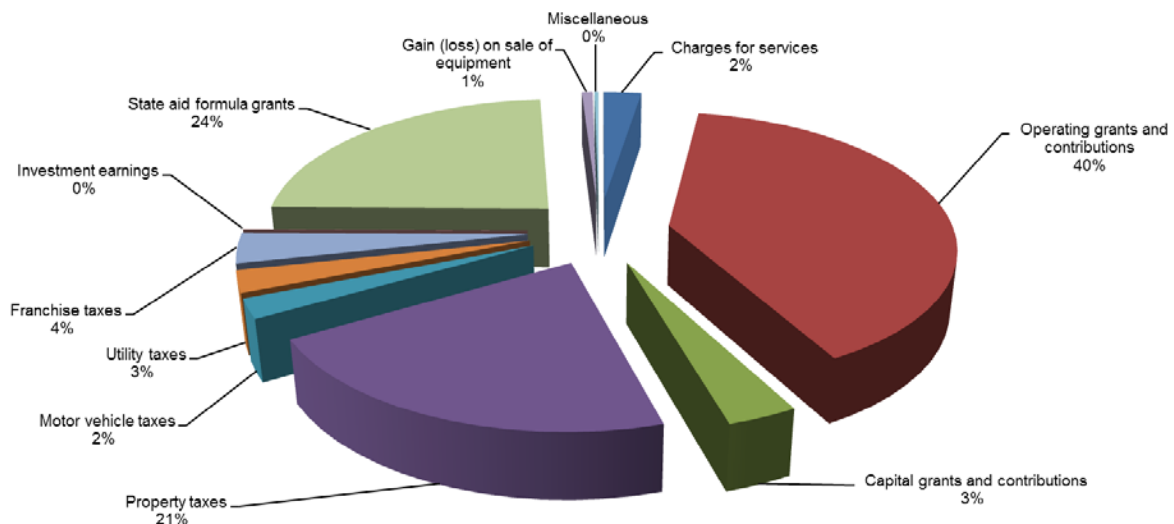
	Governmental Activities		Business-type Activities		Total Primary Government	
		(Restated)		(Restated)		(Restated)
	2017	2016	2017	2016	2017	2016
REVENUES						
Program Revenues						
Charges for services	\$ 226,885	\$ 194,601	\$ 1,397,571	\$ 1,269,427	\$ 1,624,456	\$ 1,464,028
Operating grants and contributions	23,202,832	14,631,229	2,321,215	2,261,837	25,524,047	16,893,066
Capital grants and contributions	2,147,556	870,245	-	-	2,147,556	870,245
General Revenues						
Property taxes	13,674,673	13,028,207	-	-	13,674,673	13,028,207
Motor vehicle taxes	1,491,829	1,306,787	-	-	1,491,829	1,306,787
Utility taxes	1,647,759	1,671,382	-	-	1,647,759	1,671,382
Distilled spirits tax	2,290,443	2,361,393	-	-	2,290,443	2,361,393
Investment earnings	26,142	439	-	-	26,142	439
State aid formula grants	15,341,298	18,330,913	-	-	15,341,298	18,330,913
Gain (loss) on sale of equipment	462,788	55,593	-	-	462,788	55,593
Miscellaneous	168,278	160,718	-	-	168,278	160,718
Total revenues	60,680,483	52,611,507	3,718,786	3,531,264	64,399,269	56,142,771
EXPENSES						
Program Activities						
Instruction	38,391,133	29,941,821	-	-	38,391,133	29,941,821
Student support	1,940,161	2,120,914	-	-	1,940,161	2,120,914
Instruction staff support	1,986,551	2,145,333	-	-	1,986,551	2,145,333
District administration support	1,322,246	1,132,627	-	-	1,322,246	1,132,627
School administrative support	2,926,104	3,395,395	-	-	2,926,104	3,395,395
Business support	2,055,329	1,950,187	-	-	2,055,329	1,950,187
Plant operation and maintenance	4,457,425	4,708,780	-	-	4,457,425	4,708,780
Student transportation	3,453,711	3,794,415	-	-	3,453,711	3,794,415
Community service activities	317,867	343,084	-	-	317,867	343,084
Facilities acquisition and construction	39,419	-	-	-	39,419	-
Interest on long-term debt	1,997,774	1,810,877	-	-	1,997,774	1,810,877
Business-type Activities						
Food service	-	-	2,741,979	3,074,804	2,741,979	3,074,804
Child care	-	-	864,563	692,679	864,563	692,679
Total expenses	58,887,720	51,343,433	3,606,542	3,767,483	62,494,262	55,110,916
CHANGE IN NET POSITION	\$ 1,792,763	\$ 1,268,074	\$ 112,244	\$ (236,219)	\$ 1,905,007	\$ 1,031,855

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

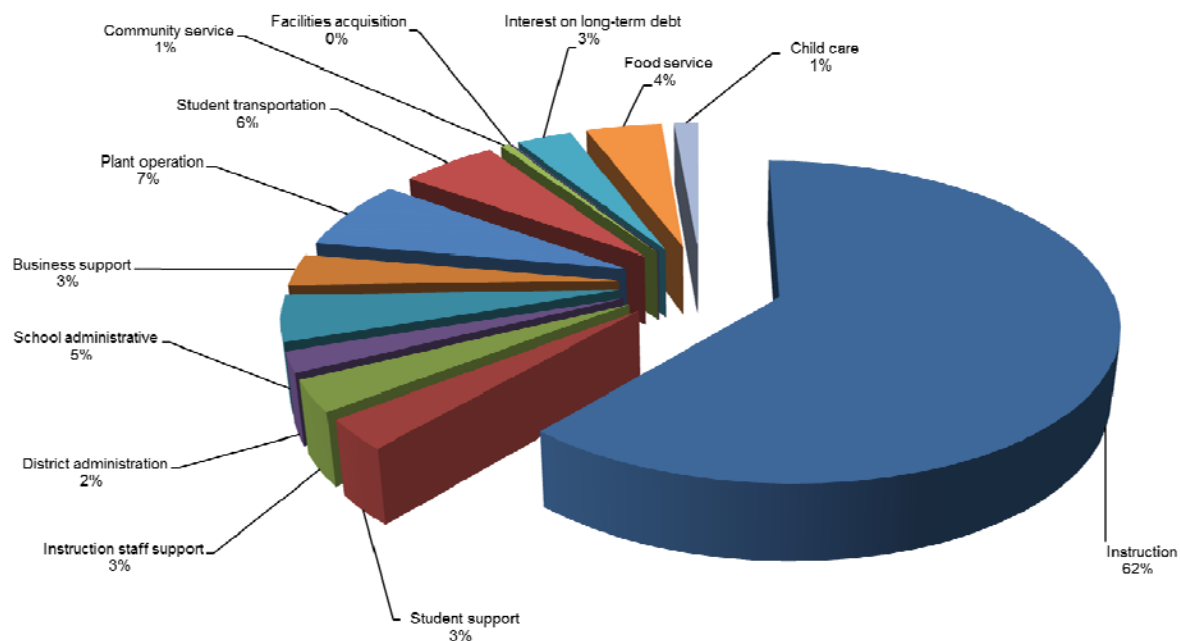
- Total revenues increased approximately \$8.0 million primarily due to increases in operating grants and contributions (\$6.7 million increase) related to additional on-behalf revenues recorded for the increase in the TRS net pension liability increase; additional increases in property tax and motor vehicle tax revenues of approximately \$832,000; and approximately \$407,000 increase on gain from insurance proceeds related to roof damage at multiple schools.
- Total expenses increased approximately \$7.5 million as a result of increases additional on-behalf revenues recorded for the increase in the TRS net pension liability (\$6.7 million increase); increases of approximately \$217,000 in interest expense; and increases in wages of approximately \$368,000.

NELSON COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017

The following provides a breakdown of total primary government revenues for the year ending June 30, 2017:



The following provides a breakdown of total primary government expenses for the year ending June 30, 2017:



NELSON COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017

Capital Assets

At the end of fiscal year 2017, the School District had approximately \$95.5 million invested in land, building and improvements, vehicles, equipment, and construction in process. Table 3 shows fiscal year 2017 and 2016 balances.

Capital Assets, Net of Depreciation
(Table 3)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land	\$ 2,921,133	\$ 2,921,133	\$ -	\$ -	\$ 2,921,133	\$ 2,921,133
Land improvements	108,860	114,930			108,860	114,930
Buildings and improvements	80,125,292	83,115,417	-	-	80,125,292	83,115,417
Technology Equipment	704,120	873,386	1,243	2,724	705,363	876,110
Vehicles	2,417,170	2,196,809	-	-	2,417,170	2,196,809
General equipment	855,401	861,552	519,144	567,732	1,374,545	1,429,284
Total	87,131,976	90,083,227	520,387	570,456	87,652,363	90,653,683
Construction in process	7,884,418	772,266	-	-	7,884,418	772,266
Total	\$ 95,016,394	\$ 90,855,493	\$ 520,387	\$ 570,456	\$ 95,536,781	\$ 91,425,949

The following were major additions and capital assets placed in service during fiscal year 2017:

Buses (six) \$ 608,419

The District also spent \$7,112,152 for construction and improvements related to three ongoing projects: (1) Nelson Co. Early Childhood Center expansion, (2) Thomas Nelson High School Phase 3, and (3) Bloomfield Middle School Energy Improvement project. The amounts were added to construction in process as of June 30, 2017.

Debt

At June 30, 2017, the School District had \$67,425,000 in bonds outstanding. Of this amount, \$7,002,205 is to be paid by the Kentucky School Facility Construction Commission. A total of \$4,120,000 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 \$37.7 million with actual amounts of approximately \$38.0 million. Budgeted expenditures of approximately \$39.9 million compare with actual expenditures of approximately \$37.4 million. The most significant fluctuation is in the other category for \$2.2 million budget for contingency that was not needed. Additional significant variances from budgeted amounts include: (1) plant operation and maintenance expenditures for capital items that were over budget by approximately \$277,000 and (2) student transportation where expenditures were over budget by approximately \$311,000. The budget overruns were offset with expenditures in instruction that were approximately \$652,000 below budget.

NELSON COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017

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 2016-2017 with a contingency that exceeded the 2% minimum.

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 or by phone at 502-349-7000.

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities	Business- Type Activities	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 6,451,222	\$ 928,625	\$ 7,379,847
Investments	3,116,588	-	3,116,588
Inventory	-	46,115	46,115
Receivables:			
Taxes-current	445,151	-	445,151
Taxes-delinquent	13,916	-	13,916
Other receivables	102,371	-	102,371
Intergovernmental-State	1,427	-	1,427
Intergovernmental-Indirect Federal	381,801	14,273	396,074
Intergovernmental-direct Federal	55,121	-	55,121
Prepaid expenses	62,300	-	62,300
Total Current Assets	10,629,897	989,013	11,618,910
<u>Noncurrent Assets</u>			
Non-depreciable capital assets	10,805,551	-	10,805,551
Depreciable capital assets, net of accumulated depreciation	84,210,843	520,387	84,731,230
Total Noncurrent Assets	95,016,394	520,387	95,536,781
Total Assets	\$ 105,646,291	\$ 1,509,400	\$ 107,155,691
Deferred Outflows of Resources			
Deferred amount on debt refundings	\$ 1,945,278	\$ -	\$ 1,945,278
CERS	2,078,775	560,684	2,639,459
Total Deferred Outflows of Resources	\$ 4,024,053	\$ 560,684	\$ 4,584,737
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 1,329,544	\$ 62	\$ 1,329,606
Accrued liabilities	461,107	-	461,107
Unearned revenue	941,453	-	941,453
Bond obligations	4,120,000	-	4,120,000
Capital leases payable	91,100	-	91,100
Compensated absences	122,820	-	122,820
Interest payable	247,338	-	247,338
Total Current Liabilities	7,313,362	62	7,313,424
<u>Noncurrent Liabilities</u>			
Bond obligations	62,820,391	-	62,820,391
Capital leases payable	129,661	-	129,661
Compensated absences	695,981	-	695,981
Net pension liability - CERS	9,376,739	2,529,077	11,905,816
Total Noncurrent Liabilities	73,022,772	2,529,077	75,551,849
Total Liabilities	\$ 80,336,134	\$ 2,529,139	\$ 82,865,273
Deferred Inflows of Resources			
CERS	\$ 192,262	\$ 51,857	\$ 244,119
Total Deferred Inflows of Resources	\$ 192,262	\$ 51,857	\$ 244,119
<u>Net Position</u>			
Net investment in capital assets	\$ 29,800,520	\$ 520,387	\$ 30,320,907
Restricted	4,112,406	-	4,112,406
Unrestricted	(4,770,978)	(1,031,299)	(5,802,277)
Total Net Position	\$ 29,141,948	\$ (510,912)	\$ 28,631,036

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

NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental Activities:							
Instruction	\$ 38,391,133	\$ 106,965	\$ 19,271,229	\$ -	\$ (19,012,939)	\$ -	\$ (19,012,939)
Support services:							
Student	1,940,161	-	628,798	-	(1,311,363)	-	(1,311,363)
Instruction staff	1,986,551	-	633,325	-	(1,353,226)	-	(1,353,226)
District administrative	1,322,246	-	135,720	-	(1,186,526)	-	(1,186,526)
School administrative	2,926,104	-	983,167	-	(1,942,937)	-	(1,942,937)
Business	2,055,329	-	408,216	-	(1,647,113)	-	(1,647,113)
Plant operation and maintenance	4,457,425	-	404,333	-	(4,053,092)	-	(4,053,092)
Student transportation	3,453,711	102,120	738,044	-	(2,613,547)	-	(2,613,547)
Community service activities	317,867	-	-	-	(317,867)	-	(317,867)
Other	-	17,800	-	-	17,800	-	17,800
Facilities acquisition and construction	39,419	-	-	1,266,073	1,226,654	-	1,226,654
Interest on long-term debt	1,997,774	-	-	881,483	(1,116,291)	-	(1,116,291)
Total Governmental Activities	58,887,720	226,885	23,202,832	2,147,556	(33,310,447)	-	(33,310,447)
Business-Type Activities:							
Food service	2,741,979	719,534	2,187,460	-	-	165,015	165,015
Childcarecare	864,563	678,037	133,755	-	-	(52,771)	(52,771)
Total Business-Type Activities	3,606,542	1,397,571	2,321,215	-	-	112,244	112,244
Total Primary Government	\$ 62,494,262	\$ 1,624,456	\$ 25,524,047	\$ 2,147,556	(33,310,447)	112,244	(33,198,203)
General Revenues:							
Taxes:							
Property taxes					13,674,673	-	13,674,673
Motor vehicle taxes					1,491,829	-	1,491,829
Utility taxes					1,647,759	-	1,647,759
Other taxes					2,290,443	-	2,290,443
Investment earnings					26,142	-	26,142
Gain on disposal of capital assets					462,788	-	462,788
State and formula grants					15,341,298	-	15,341,298
Miscellaneous					168,278	-	168,278
Total general revenues					35,103,210	-	35,103,210
Change in net position					1,792,763	112,244	1,905,007
Net position - beginning					27,349,185	(623,156)	26,726,029
Net position - ending					\$ 29,141,948	\$ (510,912)	\$ 28,631,036

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

NELSON COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2017

	General Fund	Special Revenue	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets:						
Cash and cash equivalents	\$ 623,247	\$ 698,131	5,099,506	\$ 30,338	\$ -	\$ 6,451,222
Investments	3,116,588	-	-	-	-	3,116,588
Due from other funds	-	-	-	-	-	-
Receivables:						
Taxes - current	445,151	-	-	-	-	445,151
Taxes - delinquent	13,916	-	-	-	-	13,916
Other receivables	97,692	4,679	-	-	-	102,371
Intergovernmental - State	-	1,427	-	-	-	1,427
Intergovernmental - Indirect Federal	-	381,801	-	-	-	381,801
Intergovernmental - Direct Federal	-	55,121	-	-	-	55,121
Prepaids	62,300	-	-	-	-	62,300
Total Assets	\$ 4,358,894	\$ 1,141,159	\$ 5,099,506	\$ 30,338	\$ -	\$ 10,629,897
Liabilities and Fund Balances:						
Liabilities						
Accounts payable	\$ 112,400	\$ -	\$ 1,217,144	\$ -	\$ -	\$ 1,329,544
Accrued liabilities	461,107	-	-	-	-	461,107
Unearned revenue	-	941,453	-	-	-	941,453
Total Liabilities	573,507	941,453	1,217,144	-	-	2,732,104
Fund Balances						
Nonspendable	62,300	-	-	-	-	62,300
Restricted	-	199,706	3,882,362	30,338	-	4,112,406
Committed	1,270,756	-	-	-	-	1,270,756
Assigned	42,700	-	-	-	-	42,700
Unassigned	2,409,631	-	-	-	-	2,409,631
Total Fund Balances	3,785,387	199,706	3,882,362	30,338	-	7,897,793
Total Liabilities and Fund Balances	\$ 4,358,894	\$ 1,141,159	\$ 5,099,506	\$ 30,338	\$ -	\$ 10,629,897

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

NELSON COUNTY SCHOOL DISTRICT

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

JUNE 30, 2017

Total fund balance per fund financial statements	\$ 7,897,793
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	95,016,394
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Governmental funds record debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are reported on the statement of net position as deferred outflows of resources.	1,945,278
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Governmental funds do not record deferred outflows of resources for pensions but those are reported on the statement of net position as deferred outflows of resources.	2,078,775
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Governmental funds do not record deferred inflows of resources for pensions but those are reported on the statement of net position as deferred inflows of resources.	(192,262)
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Certain liabilities are not reported in this fund financial statement because because they are not due and payable, but they are presented in the statement of net position:

Bonds payable (net of discounts/premiums)	(66,940,391)
Capital lease payable	(220,761)
Interest payable	(247,338)
Compensated absences	(818,801)
Net pension liability - CERS	<u>(9,376,739)</u>

Net position for governmental activities	<u><u>\$ 29,141,948</u></u>
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The notes to financial statements are an integral part of the statements.

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Special Revenue	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
From local sources:						
Taxes:						
Property	\$ 9,889,673	\$ -	\$ -	\$ -	\$ 3,785,000	\$ 13,674,673
Motor vehicle	1,491,829	-	-	-	-	1,491,829
Utilities	1,647,759	-	-	-	-	1,647,759
Distilled spirits	2,290,443	-	-	-	-	2,290,443
Earnings on investments	26,142	-	-	-	-	26,142
Other local revenues	135,925	270,979	-	-	-	406,904
Intergovernmental - State	22,523,951	1,864,331	-	881,483	1,266,073	26,535,838
Intergovernmental - Indirect Federal	-	2,264,736	-	-	-	2,264,736
Total Revenues	38,005,722	4,400,046	-	881,483	5,051,073	48,338,324
Expenditures:						
Instruction	21,022,679	2,597,323	-	-	-	23,620,002
Support services:						
Student	1,611,177	413,923	-	-	-	2,025,100
Instruction staff	1,636,069	378,716	-	-	-	2,014,785
District administrative	1,182,852	-	-	-	-	1,182,852
School administrative	2,911,708	-	-	-	-	2,911,708
Business	1,471,648	582,038	-	-	-	2,053,686
Plant operation and maintenance	4,127,191	10,942	-	-	-	4,138,133
Student transportation	3,214,468	434,844	-	-	-	3,649,312
Facilities acquisition and construction	-	-	7,112,151	-	-	7,112,151
Community service activities	-	317,866	-	-	-	317,866
Bond issue costs	-	-	39,420	64,244	-	103,664
Debt service:						
Principal	164,832	-	-	3,592,951	-	3,757,783
Interest	14,998	-	-	1,825,125	-	1,840,123
Total Expenditures	37,357,622	4,735,652	7,151,571	5,482,320	-	54,727,165
Excess (Deficit) of Revenues over Expenditures	648,100	(335,606)	(7,151,571)	(4,600,837)	5,051,073	(6,388,841)
Other Financing Sources (Uses):						
Bond proceeds from revenue bonds	-	-	3,480,000	-	-	3,480,000
Bond proceeds from refunding bonds	-	-	-	7,260,000	-	7,260,000
Bond discount	-	-	(11,214)	(72,600)	-	(83,814)
Payment to refunded bond escrow agent	-	-	-	(7,123,155)	-	(7,123,155)
Proceeds from disposal of capital assets	83,451	-	-	-	-	83,451
Insurance proceeds	-	-	400,099	-	-	400,099
Transfers in	-	389,782	575,885	4,566,930	-	5,532,597
Transfers out	(389,782)	(91,742)	-	-	(5,051,073)	(5,532,597)
Total Other Financing Sources (Uses)	(306,331)	298,040	4,444,770	4,631,175	(5,051,073)	4,016,581
Net Change in Fund Balances	341,769	(37,566)	(2,706,801)	30,338	-	(2,372,260)
Fund Balance, July 1, 2016	3,443,618	237,272	6,589,163	-	-	10,270,053
Fund Balance, June 30, 2017	\$ 3,785,387	\$ 199,706	\$ 3,882,362	\$ 30,338	\$ -	\$ 7,897,793

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

NELSON COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2017

Net change in total fund balances per fund financial statements		\$ (2,372,260)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed depreciation expense for the year.		
Capital expenditures	\$ 8,059,747	
Depreciation	<u>(3,878,084)</u>	4,181,663
The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net position.		(10,740,000)
Debt service payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position. The difference is the amount of principal payment during the year for:		
Principal payments on bonds	10,430,000	
Principal payments on capital leases	<u>86,150</u>	10,516,150
In the statement of activities, only the gain (loss) on sale of capital assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.		(20,763)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
Compensated absences - long-term	(177,375)	
Changes in interest payable, discounts, and deferred amounts on refunding	355,196	
Pension expenses related to changes in the net pension liability and the net changes in deferred outflows and inflows for CERS	<u>50,152</u>	<u>227,973</u>
Change in net position of governmental activities		<u>\$ 1,792,763</u>

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

JUNE 30, 2017

	Food Service Fund	Childcare Fund	Total Enterprise Funds
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 624,521	\$ 304,104	\$ 928,625
Inventory	46,115	-	46,115
Intergovernmental receivable - Indirect Federal	14,273	-	14,273
Total Current Assets	684,909	304,104	989,013
<u>Noncurrent Assets</u>			
Capital assets, net of accumulated depreciation	520,387	-	520,387
Total Noncurrent Assets	520,387	-	520,387
Total Assets	\$ 1,205,296	\$ 304,104	\$ 1,509,400
Deferred Outflows of Resources			
CERS	\$ 390,004	\$ 170,680	\$ 560,684
Total Deferred Outflows of Resources	\$ 390,004	\$ 170,680	\$ 560,684
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 62	\$ -	\$ 62
Unearned revenues	-	-	-
Total Current Liabilities	62	-	62
<u>Noncurrent Liabilities</u>			
Net pension liability - CERS	1,759,191	769,886	2,529,077
Total Noncurrent Liabilities	1,759,191	769,886	2,529,077
Total Liabilities	\$ 1,759,253	\$ 769,886	\$ 2,529,139
Deferred Inflows of Resources			
CERS	\$ 36,071	\$ 15,786	\$ 51,857
Total Deferred Inflows of Resources	\$ 36,071	\$ 15,786	\$ 51,857
<u>Net Position</u>			
Net investment in capital assets	520,387	-	520,387
Unrestricted	\$ (720,411)	\$ (310,888)	\$ (1,031,299)
Total Net Position	\$ (200,024)	\$ (310,888)	\$ (510,912)

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	Food Service Fund	Childcare Fund	Total Enterprise Funds
Operating Revenues			
Lunchroom sales	\$ 719,534	\$ -	\$ 719,534
Tuition and fees	-	678,037	678,037
Total Operating Revenues	<u>719,534</u>	<u>678,037</u>	<u>1,397,571</u>
Operating Expenses			
Salaries and wages	1,384,034	806,512	2,190,546
Materials and supplies	1,260,940	57,833	1,318,773
Depreciation	96,401	-	96,401
Other operating expenses	604	218	822
Total Operating Expenses	<u>2,741,979</u>	<u>864,563</u>	<u>3,606,542</u>
Operating income (loss)	<u>(2,022,445)</u>	<u>(186,526)</u>	<u>(2,208,971)</u>
Non-Operating Revenues (Expenses)			
Federal grants	1,716,426	-	1,716,426
Donated commodities	180,000	-	180,000
State grants	24,400	-	24,400
State on-behalf payments	266,634	133,755	400,389
Total Non-Operating Revenues (Expenses)	<u>2,187,460</u>	<u>133,755</u>	<u>2,321,215</u>
Changes in net position	165,015	(52,771)	112,244
Net Position, July 1, 2016	<u>(365,039)</u>	<u>(258,117)</u>	<u>(623,156)</u>
Net Position, June 30, 2017	<u>\$ (200,024)</u>	<u>\$ (310,888)</u>	<u>\$ (510,912)</u>

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	Food Service Fund	Childcare Fund	Total Enterprise Funds
Cash Flows from Operating Activities			
Cash received from:			
Lunchroom sales	\$ 719,534	\$ -	\$ 719,534
Tuition and fees	-	678,037	678,037
Cash paid to/for:			
Employees	(1,190,022)	(572,672)	(1,762,694)
Supplies	(1,060,838)	(57,833)	(1,118,671)
Other activities	(604)	(218)	(822)
Net Cash Provided (Used) by Operating Activities	<u>(1,531,930)</u>	<u>47,314</u>	<u>(1,484,616)</u>
Cash flows from Non-Capital Financing Activities			
Federal grants	1,702,153	-	1,702,153
State grants	24,400	-	24,400
Net Cash Provided by Non-Capital Financing Activities	<u>1,726,553</u>	<u>-</u>	<u>1,726,553</u>
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	(46,332)	-	(46,332)
Net Cash Used by Capital and Related Financing Activities	<u>(46,332)</u>	<u>-</u>	<u>(46,332)</u>
Net change in cash and cash equivalents	148,291	47,314	195,605
Balances, beginning of year	<u>476,230</u>	<u>256,790</u>	<u>733,020</u>
Balances, end of year	<u>\$ 624,521</u>	<u>\$ 304,104</u>	<u>\$ 928,625</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating loss	\$ (2,022,445)	\$ (186,526)	\$ (2,208,971)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	96,401	-	96,401
Donated commodities	180,000	-	180,000
State on-behalf payments	266,634	133,755	400,389
GASB 68 pension expense	(72,622)	100,085	27,463
Change in assets and liabilities:			
Inventory	20,068	-	20,068
Accounts payable	34	-	34
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,531,930)</u>	<u>\$ 47,314</u>	<u>\$ (1,484,616)</u>
Schedule of Non-cash Transactions			
Donated commodities received from federal government	<u>\$ 180,000</u>	<u>\$ -</u>	<u>\$ 180,000</u>
State on-behalf payments	<u>\$ 266,634</u>	<u>\$ 133,755</u>	<u>\$ 400,389</u>
CERS Pensions	<u>\$ (72,622)</u>	<u>\$ 100,085</u>	<u>\$ 27,463</u>

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2017

	Agency Fund
Assets	
Cash and cash equivalents	\$ 732,454
Receivables	<u>70</u>
Total Assets	<u>\$ 732,524</u>
 Liabilities	
Accounts payable	\$ 18,763
Due to student groups	<u>713,761</u>
Total Liabilities	<u>\$ 732,524</u>

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

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

Basis of Presentation

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

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

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.

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

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 62. This is a major fund of the District.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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.

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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, 2017, to finance the General Fund operations were \$0.75 per \$100 valuation for real property, \$0.75 per \$100 valuation for business personal property and \$0.5480 per \$100 valuation for motor vehicles.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

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, electric power, water, and natural, artificial and mixed gas.

Capital Assets

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

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

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

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

Interfund Balances

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

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

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. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end in accordance with state law.

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

Encumbrances

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

Cash 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, 2017 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrued Liabilities and Long-Term Obligations

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

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

Compensated Absences

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

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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

Net Position

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

Operating Revenues

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

Contributions of Capital

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

Interfund Activity

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued And Adopted Accounting Principles

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. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact 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. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact on the District's financial statements.

In August 2015, the GASB issued Statement 77, *Tax Abatement Disclosures*. This statement is effective for periods beginning after December 15, 2015. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact 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. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact 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 14*. This statement is effective for periods beginning after June 15, 2016. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact 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. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact on the District's financial statements.

Recently Issued Accounting Principles

In March 2016, the GASB issued Statement 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 72*. This statement is effective for periods beginning after June 15, 2016 except for the requirements of the Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In November 2016, the GASB issued Statement 83, *Certain Asset Retirement Obligations*. This statement is effective for periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. This statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. 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.

In May 2017, the GASB issued Statement 86, *Certain Debt Extinguishment Issues*. 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.

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

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, CASH EQUIVALENTS, AND INVESTMENT DEPOSITS

At year-end, the carrying amount of the District's deposits was \$11,821,068. \$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 certificates and securities with a maturity of 90 days or less.

Breakdown per financial statements:

Governmental Funds	\$	6,451,222
Proprietary Funds		<u>928,625</u>
	\$	<u><u>7,379,847</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 \$726,921.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE C – CASH, CASH EQUIVALENTS, AND INVESTMENT DEPOSITS – CONTINUED

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

<u>Description</u>	<u>Maturity</u>		<u>Carrying Amount</u>	<u>Rate</u>
Fort Knox Federal Credit Union CD	9/15/2018	\$	3,016,593	1.20%
Well's Fargo CD	5/4/2020		<u>99,995</u>	1.15%
		\$	<u><u>3,116,588</u></u>	

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

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

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

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, 2017, the District did not hold any investments in excess of this limit.

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

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE C – CASH, CASH EQUIVALENTS, AND INVESTMENT DEPOSITS – CONTINUED

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 D – TRANSFER OF FUNDS

The following transfers were made during the year ending June 30, 2017:

Fund Financial Statements:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Technology Match	\$ 389,782
Non-major fund	Non-major fund	Debt Service	417,609
Non-major fund	Construction Fund	Construction Projects	575,885
Non-major fund	Non-major fund	Debt Service	4,057,579
Special Revenue	Non-major fund	Debt Service	91,742

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE E – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

Governmental Activities	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Capital Assets Not Being Depreciated:				
Land	\$ 2,921,133	\$ -	\$ -	\$ 2,921,133
Construction in progress	772,266	7,884,418	(772,266)	7,884,418
Total Capital Assets Not Being Depreciated	3,693,399	7,884,418	(772,266)	10,805,551
Capital Assets Being Depreciated:				
Land improvements	123,218	-	-	123,218
Buildings and improvements	120,306,696	84,000	-	120,390,696
Technology equipment	3,511,642	147,650	(1,800)	3,657,492
Vehicles	6,034,275	608,419	(544,802)	6,097,892
General equipment	2,307,250	107,526	(46,108)	2,368,668
Total Capital Assets Being Depreciated at Historical Cost	132,283,081	947,595	(592,710)	132,637,966
Accumulated depreciation:				
Land improvements	8,288	6,070	-	14,358
Buildings and improvements	37,191,279	3,074,125	-	40,265,404
Technology equipment	2,638,256	316,916	(1,800)	2,953,372
Vehicles	3,837,466	388,058	(544,802)	3,680,722
General equipment	1,445,698	92,915	(25,346)	1,513,267
Total accumulated depreciation	45,120,987	3,878,084	(571,948)	48,427,123
Total Other Capital Assets, net	87,162,094	(2,930,489)	(20,762)	84,210,843
Governmental Activities Capital Assets - Net	<u>\$ 90,855,493</u>	<u>\$ 4,953,929</u>	<u>\$ (793,028)</u>	<u>\$ 95,016,394</u>
Depreciation was charged to governmental functions as follows:				
Instruction	\$ 2,799,205			
District administration	140,334			
School administration	7,219			
Plant	572,911			
Transportation	358,415			
	<u>\$ 3,878,084</u>			

Construction in process totaling \$7,884,418 is related to the three ongoing projects: (1) Nelson Co. Early Childhood Center expansion, (2) Thomas Nelson High School Phase 3, and (3) Bloomfield Middle School Energy Improvement project.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE E – CAPITAL ASSETS – CONTINUED

Business-Type Activities	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Capital Assets Being Depreciated:				
Technology equipment	\$ 42,977	\$ -	\$ -	\$ 42,977
General equipment	2,027,487	46,332	-	2,073,819
Totals at historical cost	2,070,464	46,332	-	2,116,796
Accumulated depreciation:				
Technology equipment	40,253	1,481	-	41,734
General equipment	1,459,755	94,920	-	1,554,675
Total accumulated depreciation	1,500,008	96,401	-	1,596,409
Business-type Activities				
Capital Assets - Net	\$ 570,456	\$ (50,069)	\$ -	\$ 520,387

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
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%
2011	780,000	1.4% - 4.5%
2011 Ref	8,670,000	0.75% - 2.375%
2014 Ref	18,770,000	2.0% - 3.5%
2014 EN	3,420,000	1.5% - 3.7%
2015 A	8,485,000	2.0% - 3.0%
2015 B	3,485,000	2.0% - 2.45%
2016 A Ref	8,905,000	2.0% - 2.5%
2016 A	6,525,000	2.0% - 3.0%
2016 B Ref	7,260,000	2.0% - 3.3%
2017	3,480,000	2.0% - 3.0%

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

In September 2016, the Board issued \$7,260,000 of 2016 B School Building Revenue Refunding Bonds with interest rates ranging from 2.0% - 3.3% to advance refund the 2009 Series Bonds principal amounts of \$6,615,000 with interest rates ranging from 3.0% - 4.0%. 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 2009 series bonds. As a result, that portion of the 2009 series bonds is considered defeased, and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$6,615,000 at June 30, 2017. The outstanding principal is callable on May 1, 2019.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$614,363. This difference, reported in the accompanying government-wide financial statements as a deferred outflow of resources, deferred amount on refunding, is being charged to operations through the year 2029 using the straight-line method which approximates the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 12 years by \$382,904 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$327,820.

On March 22, 2017, the District issued \$3,480,000 in 2017 Series Energy Conservation Revenue Bonds with an average interest rate of 2.90 percent. The net proceeds of \$3,429,366 (after \$39,420 in cost of issuance and \$11,214 of discount) were deposited in the Construction Fund.

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, 2017 for debt service (principal and interest) are as follows:

Year Ending June 30	Principal	Interest	SFCC Participation	District's Portion
2018	\$ 4,120,000	\$ 1,727,770	\$ 832,684	\$ 5,015,086
2019	4,190,000	1,636,254	832,904	4,993,350
2020	4,295,000	1,542,972	833,114	5,004,858
2021	4,395,000	1,452,019	832,874	5,014,145
2022	4,505,000	1,351,907	832,254	5,024,653
2023 - 2027	23,010,000	5,090,537	2,838,439	25,262,098
2028 - 2032	19,075,000	1,923,586	805,081	20,193,505
2033 - 2037	3,835,000	278,580	142,507	3,971,073
	<u>\$ 67,425,000</u>	<u>\$ 15,003,625</u>	<u>\$ 7,949,857</u>	<u>\$ 74,478,768</u>

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

Capital Lease Obligations

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

The gross amount of the equipment under capital lease is \$290,176 and the net book value of the equipment under at June 30, 2017 is \$201,818.

Year Ending June 30	
2018	\$ 101,148
2019	101,148
2020	33,716
	<u>236,012</u>
Less: amount representing interest	<u>(15,251)</u>
Present value of minimum lease payments	<u>\$ 220,761</u>
Current maturities	\$ 91,100
Non-current maturities	129,661
	<u>\$ 220,761</u>

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

Changes in Long-term Obligations

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Governmental Activities:					
Bonds Payable:					
Revenue bonds	\$ 67,115,000	\$ 10,740,000	\$ 10,430,000	\$ 67,425,000	\$ 4,120,000
Less Premium (Discount)	<u>(552,403)</u>	<u>(83,814)</u>	<u>151,608</u>	<u>(484,609)</u>	<u>-</u>
Total Bonds Payable	<u>66,562,597</u>	<u>10,656,186</u>	<u>10,581,608</u>	<u>66,940,391</u>	<u>4,120,000</u>
Other Liabilities:					
Other capital lease obligation	306,911	-	86,150	220,761	91,100
Compensated absences	<u>641,426</u>	<u>301,784</u>	<u>124,409</u>	<u>818,801</u>	<u>122,820</u>
Total Other Liabilities	<u>948,337</u>	<u>301,784</u>	<u>210,559</u>	<u>1,039,562</u>	<u>213,920</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 67,510,934</u>	<u>\$ 10,957,970</u>	<u>\$ 10,792,167</u>	<u>\$ 67,979,953</u>	<u>\$ 4,333,920</u>

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

Accumulated Unpaid Sick Leave Benefits

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

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

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

NOTE G – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2017, there was \$62,300 of nonspendable fund balance related to prepaid items.

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, 2017, the District had \$199,706 restricted for student activities in the special revenue fund, \$3,882,362 restricted for capital projects in the Construction Fund, and \$30,338 restricted for debt service in the debt service fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following general fund commitments at June 30, 2017: \$250,000 for sick leave; \$430,000 for future site costs, \$325,000 for future general fund construction, and \$256,756 for future technology upgrades.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. There were no amounts assigned related to encumbrances at June 30, 2017. 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 amount assigned in the general fund was \$42,700 for open purchase orders encumbered at June 30, 2017.

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

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS

Plan Descriptions

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

TRS

Retirement Plan

Benefits Provided

For Members Before July 1, 2008:

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

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

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

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

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

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

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

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

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

Other Benefits:

The System provides post-employment medical benefits to retirees. The System also provides disability benefits for vested members at the rate of sixty percent (60%) of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members. Cost of living increases are one and one-half percent (1.5%) annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions

Contribution rates are established by Kentucky Revised Statutes. The State contributes 100 percent of school districts' contractually required contributions, which are actuarially determined. Employees are required to contribute 12.855 percent of their annual salary. The school districts' contractually required contribution rate for the year ended June 30, 2017, was 13.105 percent of salaries for members in the plan before July 1, 2008 and 14.105 percent of salaries for members who started their account after June 30, 2008. The District made no contributions to the pension plan for the year ended June 30, 2017.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

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

At June 30, 2017, the District reported no net pension liability because it did not have a proportionate share of the net pension liability. There was no amount recognized by the District as its proportionate share of the net pension liability. The related State share of the net pension liability was \$175,851,028.

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2016, the District's proportion was 0 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$14,885,929 and revenue of \$14,885,929 (\$3,006,556 in the governmental funds and an additional \$11,879,373 in government-wide activities) for support provided by the State. At June 30, 2017, the District reported no deferred outflows of resources and no deferred inflows of resources related to TRS.

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50 percent
Salary increases	4.00 – 8.20 percent, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a set back of 1 year for females. The results of the experience study for the period July 1, 2010 - June 30, 2015 will be reflected in the June 30, 2016 valuation and the June 30, 2017 GASB 67 report.

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

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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45%	6.4%
Non U.S. Equity	17%	6.5%
Fixed Income	24%	1.6%
High Yield Bonds	4%	3.1%
Real Estate	4%	5.8%
Alternatives	4%	6.8%
Cash	2%	1.5%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 4.20%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67. It was assumed that Plan member contributions will be made at the current contribution rates and that 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 members until the 2040 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the single equivalent interest rate (SEIR). Therefore, the long-term expected rate of return of 7.50% on Plan investments was applied to periods through 2039 and the Municipal Bond Index Rate of 3.01% was applied to periods after 2039, resulting in an SEIR of 4.20%. The TPL used last year was determined using a discount rate equal to 4.88%, which was based on a municipal bond index rate of 3.82%. These two amounts are rolled forward to June 30, 2016 using standard roll forward techniques. The roll forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year and then applies the assumed interest rate (SEIR) for the year. The difference between the two roll-forward amounts as of June 30, 2016 is the gain or loss due to changes in assumptions and other inputs. In addition, we have determined an expected TPL as of June 30, 2016 based on the TPL roll-forward in the June 30, 2015 GASB 67 report. The difference between this amount and the roll-forward of the actual TPL based on the 4.88% interest rate is reflected as an experience gain or loss for the year.

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

The District has no proportional share of the net pension liability. The following presents the sensitivity of the System's net pension liability calculated using the discount rate of 4.20 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.20 percent) or 1-percentage-point higher (5.20 percent) than the current rate:

	1 % Decrease (3.20%)	Current Discount Rate (4.20%)	1% Increase (5.20)
System's net pension liability (in thousands)	\$ 37,937,230	\$ 30,924,069	\$ 25,168,197

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

Pension Plan Fiduciary Net Position

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

Medical Insurance Plan

Plan Description

In addition to the pension benefits described above, KRS 161.675 requires TRS to provide postretirement healthcare benefits to eligible members and dependents. The TRS medical insurance benefit is a cost-sharing, multiple employer defined benefit plan. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

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

Contributions

The post-employment medical benefit provided by TRS is financed on a pre-funded 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. Beginning July 1, 2010 member contributions to the TRS medical plan increased incrementally to 3.75% on July 1, 2015 under the Shared Responsibility Plan. Also, the premiums collected from retirees and investment income contributes to funding the plan.

CERS

Benefits Provided

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

Contributions

For the fiscal year ended June 30, 2017, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The school districts' contractually required contribution rate for the year ended June 30, 2017, was 13.95 percent of annual creditable compensation. Contributions to the pension plan from the District were \$837,505.

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

At June 30, 2017, the District reported a liability of \$11,905,816 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.241810 percent which was a decrease of .006544 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2016, the District recognized pension expense of \$814,816. At June 30, 2017, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 51,979	\$ -
Changes in actuarial assumptions	630,707	-
Difference between projected and actual investment earnings	1,119,268	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	244,119
Contributions paid to CERS subsequent to the measurement date	837,505	-
	<u>\$ 2,639,459</u>	<u>\$ 244,119</u>

The amount reported as deferred outflows for District contributions subsequent to the measurement date of \$837,505 will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

Year Ending June 30	Pension Expense Amount
2018	\$ 598,541
2019	377,007
2020	365,362
2021	216,925
	<u>\$ 1,557,835</u>

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.0 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Actuarial Assumptions

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

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

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash	2%	-0.25%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 7.5%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2017. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CERS Comprehensive Annual Financial Report.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 14,836,575	\$ 11,905,816	\$ 9,393,572

Pension Plan Fiduciary Net Position

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

The District is required to contribute at an actuarially determined rate. As of June 30, 2017, 2016, and 2015, the District's required contribution rate was 4.73%, 4.64%, and 4.92%, respectively, of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the Kentucky Retirement Systems Board of Trustees. Contributions to the Insurance Fund from the District were \$283,971, \$272,843 and \$285,458 for the years ended June 30, 2017, 2016, and 2015, respectively.

DEFERRED COMPENSATION

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

NOTE I – COMMITMENTS AND CONTINGENCIES

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE I – COMMITMENTS AND CONTINGENCIES – CONTINUED

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.

Construction in process totaling \$7,884,418 is related to the three ongoing projects: (1) Nelson Co. Early Childhood Center expansion, (2) Thomas Nelson High School Phase 3, and (3) Bloomfield Middle School Energy Improvement project. As of June 30, 2017, the remaining commitments to complete the projects total approximately \$8.02 million.

NOTE J – LITIGATION

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

NOTE K – INSURANCE AND RELATED ACTIVITIES

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

NOTE L – RISK MANAGEMENT

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

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE M – DEFICIT OPERATING BALANCES

The Food Service Fund and Child Care Fund had a deficit net position at June 30, 2017 in the amounts of \$200,024 and \$310,888, 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:

Special revenue fund	\$ 37,566
Child Care Fund	52,571
Construction Fund	2,706,801

NOTE N – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the Commonwealth of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amounts received and funds where these items were recorded for the fiscal year ended June 30, 2017 were as follows:

Health	\$ 4,269,279
Life	7,569
Admin	60,247
HRA	368,463
TRS	3,006,556
Technology	881,483
Debt Service	83,616
Less: Federal Reimbursement	<u>(233,815)</u>
Total on-behalf	<u>\$ 8,443,398</u>

Recorded as follows:

General Fund	\$ 7,161,526
Food Service Fund	266,634
Daycare Fund	133,755
Debt Service Fund	<u>881,483</u>
	<u>\$ 8,443,398</u>

NOTE O – COBRA

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

REQUIRED SUPPLEMENTARY INFORMATION

NELSON COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2017

	Original	Final	Actual
Revenues			
From local sources:			
Taxes:			
Property	\$ 9,860,000	\$ 9,860,000	\$ 9,889,673
Motor vehicle	1,335,000	1,335,000	1,491,829
Utilities	1,700,000	1,700,000	1,647,759
Distilled spirits	2,400,000	2,400,000	2,290,443
Earnings on investments	-	-	26,142
Other local revenues	145,000	115,000	135,925
Intergovernmental - State	22,296,000	22,288,000	22,523,951
Total Revenues	37,736,000	37,698,000	38,005,722
Expenditures			
Instruction	21,610,929	21,568,516	21,022,679
Support services:			
Student	1,626,396	1,625,396	1,611,177
Instruction staff	1,622,742	1,620,492	1,636,069
District administrative	1,462,564	1,462,564	1,182,852
School administrative	2,909,177	2,916,840	2,911,708
Business	1,526,458	1,526,458	1,471,648
Plant operation and maintenance	3,849,573	3,849,573	4,127,191
Student transportation	2,903,161	2,903,161	3,214,468
Other	2,180,000	2,180,000	-
Debt service:			
Principal	185,000	185,000	164,832
Interest	-	-	14,998
Total Expenditures	39,876,000	39,838,000	37,357,622
Excess (Deficit) of Revenues over Expenditures	(2,140,000)	(2,140,000)	648,100
Other Financing Sources (Uses)			
Proceeds from disposal of capital assets	-	-	83,451
Transfers in	140,000	140,000	-
Transfers out	(100,000)	(100,000)	(389,782)
Total Other Financing Sources (Uses)	40,000	40,000	(306,331)
Net Change in Fund Balance	(2,100,000)	(2,100,000)	341,769
Fund Balance, July 1, 2016	2,100,000	2,100,000	3,443,618
Fund Balance, June 30, 2017	\$ -	\$ -	\$ 3,785,387

See accompanying independent auditor's report.

NELSON COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2017

	Original	Final	Actual
Revenues			
Other local revenues	\$ 19,840	\$ 19,840	\$ 270,979
Intergovernmental - State	1,654,877	1,655,123	1,864,331
Intergovernmental - Indirect Federal	2,055,655	2,062,905	1,943,863
Intergovernmental - Direct Federal	-	-	320,873
Total Revenues	3,730,372	3,737,868	4,400,046
Expenditures			
Instruction	2,595,895	2,593,823	2,597,323
Support services:			
Student	270,075	270,075	413,923
Instruction staff	231,166	240,734	378,716
Business	150,000	150,000	582,038
Plant operation and maintenance	-	-	10,942
Student transportation	291,220	291,220	434,844
Community service activities	292,016	292,016	317,866
Total Expenditures	3,830,372	3,837,868	4,735,652
Excess (Deficit) of Revenues over Expenditures	(100,000)	(100,000)	(335,606)
Other Financing Sources (Uses)			
Transfers in	100,000	100,000	389,782
Transfers out	-	-	(91,742)
Total Other Financing Sources (Uses)	100,000	100,000	298,040
Net Change in Fund Balance	-	-	(37,566)
Fund Balance, July 1, 2016	-	-	237,272
Fund Balance, June 30, 2017	\$ -	\$ -	\$ 199,706

See accompanying independent auditor's report.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

FOR THE YEAR ENDED JUNE 30, 2017

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

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

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

See accompanying independent auditor's report.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULES OF CONTRIBUTIONS

FOR THE YEAR ENDED JUNE 30, 2017

CERS

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

TRS

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

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

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

See accompanying independent auditor's report.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS

JUNE 30, 2017

CERS

Changes of benefit terms. There were no changes in benefit terms.

Changes of assumptions. There were no changes in assumptions.

TRS

Changes of benefit terms. There were no changes in benefit terms.

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

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

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

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

JUNE 30, 2017

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

See accompanying independent auditor's report.

NELSON COUNTY SCHOOL DISTRICT**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – NON-MAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2017

	Capital Outlay Fund	Building Fund	Total Nonmajor Governmental Funds
Revenues			
From local sources:			
Taxes:			
Property	\$ -	\$ 3,785,000	\$ 3,785,000
Earnings on investments	-	-	-
Other local revenue	-	-	-
Intergovernmental - State	417,609	848,464	1,266,073
Total Revenues	417,609	4,633,464	5,051,073
Other Financing Sources (Uses)			
Transfers out	(417,609)	(4,633,464)	(5,051,073)
Total Other Financing Sources (Uses)	(417,609)	(4,633,464)	(5,051,073)
Net Change in Fund Balances	-	-	-
Fund balance, July 1, 2016	-	-	-
Fund balance, June 30, 2017	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

NELSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION – AGENCY FUNDS

JUNE 30, 2017

	Bloomfield Middle School	New Haven School	Boston School	Old Kentucky Home Middle School	Cox's Creek Elementary School	Foster Heights Elementary School
Assets						
Cash and cash equivalents	\$ 64,735	\$ 41,219	\$ 27,797	\$ 54,882	\$ 20,853	\$ 60,021
Receivables	-	-	-	-	-	-
Total Assets	<u>\$ 64,735</u>	<u>\$ 41,219</u>	<u>\$ 27,797</u>	<u>\$ 54,882</u>	<u>\$ 20,853</u>	<u>\$ 60,021</u>
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 67	\$ 164
Due to student groups	64,735	41,219	27,797	54,882	20,786	59,857
Total Liabilities	<u>\$ 64,735</u>	<u>\$ 41,219</u>	<u>\$ 27,797</u>	<u>\$ 54,882</u>	<u>\$ 20,853</u>	<u>\$ 60,021</u>
	Nelson County High School	Bloomfield Elementary School	Thomas Nelson High School	Early Childhood Center	Hoirzons Academy	Total Agency Funds
Assets						
Cash and cash equivalents	\$ 250,133	\$ 73,590	\$ 131,740	\$ 5,193	\$ 2,291	\$ 732,454
Receivables	70	-	-	-	-	70
Total Assets	<u>\$ 250,203</u>	<u>\$ 73,590</u>	<u>\$ 131,740</u>	<u>\$ 5,193</u>	<u>\$ 2,291</u>	<u>\$ 732,524</u>
Liabilities						
Accounts payable	\$ 10,929	\$ -	\$ 7,603	\$ -	\$ -	\$ 18,763
Due to student groups	239,274	73,590	124,137	5,193	2,291	713,761
Total Liabilities	<u>\$ 250,203</u>	<u>\$ 73,590</u>	<u>\$ 131,740</u>	<u>\$ 5,193</u>	<u>\$ 2,291</u>	<u>\$ 732,524</u>

See accompanying independent auditor's report.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

SCHOOL	CASH BALANCE July 1, 2016	RECEIPTS	DISBURSE- MENTS	CASH BALANCE June 30, 2017	RECEIVABLES June 30, 2017	ACCOUNTS PAYABLE June 30, 2017	DUE TO STUDENT GROUPS June 30, 2017
Bloomfield Middle School	\$ 53,999	\$ 192,392	\$ 181,656	\$ 64,735	\$ -	\$ -	\$ 64,735
New Haven Elementary School	43,152	96,360	98,293	41,219	-	-	41,219
Boston Elementary School	31,780	66,602	70,585	27,797	-	-	27,797
Old Ky Home Middle School	57,131	147,403	149,652	54,882	-	-	54,882
Cox's Creek Elementary School	22,049	121,545	122,741	20,853	-	67	20,786
Foster Heights Elementary School	53,548	123,438	116,965	60,021	-	164	59,857
Nelson County High School	218,062	560,526	528,455	250,133	70	10,929	239,274
Bloomfield Elementary School	62,532	65,714	54,656	73,590	-	-	73,590
Thomas Nelson High School	140,165	376,142	384,567	131,740	-	7,603	124,137
Nelson Co. Early Learning Center	794	16,780	12,381	5,193	-	-	5,193
Horizons Academy	1,157	1,419	285	2,291	-	-	2,291
	<u>\$ 684,369</u>	<u>\$ 1,768,321</u>	<u>\$ 1,720,236</u>	<u>\$ 732,454</u>	<u>\$ 70</u>	<u>\$ 18,763</u>	<u>\$ 713,761</u>

See accompanying independent auditor's report.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

NAME OF ACTIVITY	CASH BALANCES July 1, 2016	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2017	RECEIVABLES June 30, 2017	ACCOUNTS PAYABLE June 30, 2017	DUE TO STUDENT GROUPS June 30, 2017
General Fund	\$ 1,249	\$ 7,813	\$ 5,756	\$ 3,306	\$ -	\$ 85	\$ 3,221
Board Tuition	90	9,471	9,561	-	-	-	-
Athletic Vending	530	141	-	671	-	-	671
Concessions	7,950	59,965	59,139	8,776	-	-	8,776
Teacher's Lounge/Admin	813	5,167	4,083	1,897	-	-	1,897
Board Parking Pass	-	2,517	2,517	-	-	-	-
Board Band	100	12,650	12,750	-	-	-	-
Band Fundraising	5,655	17,506	19,095	4,066	-	-	4,066
AP Exam	-	15,659	15,520	139	-	-	139
Choir	478	5,646	5,908	216	-	-	216
Drama	10,736	7,957	8,529	10,164	-	202	9,962
Guidance	1,038	92	-	1,130	-	-	1,130
Special Education	917	330	436	811	-	-	811
Prom	3,375	7,040	7,048	3,367	-	-	3,367
Board Library	-	202	202	-	-	-	-
Nurse	1,181	40	120	1,101	-	-	1,101
Colorguard/Winterguard	258	-	258	-	-	-	-
Global Educ Tour Group	-	755	750	5	-	-	5
Board Textbook-L/D	-	177	177	-	-	-	-
Board Use of Building	-	4,539	4,539	-	-	-	-
Yearbook	42,581	4,999	16,133	31,447	70	25	31,492
Student Beverage-Vending	197	1,913	1,019	1,091	-	-	1,091
ROTC-Unit Funds	6,520	8,477	7,794	7,203	-	-	7,203
Board Instructional	-	11,139	11,139	-	-	-	-
Board Science Dept	-	9,025	9,025	-	-	-	-
Board Art	24	3,508	3,532	-	-	-	-
Art	354	435	332	457	-	-	457
Graduate Class	862	1,000	1,251	611	-	-	611
Transition	589	293	266	616	-	-	616
Key Club	1,137	4,393	4,927	603	-	58	545
Beta Club	483	1,250	679	1,054	-	-	1,054
FBLA	898	13,170	12,489	1,579	-	-	1,579
FFA	7,820	46,804	49,390	5,234	-	70	5,164
STLP	45	120	160	5	-	-	5
National Honor Society	99	2,205	2,304	-	-	-	-
Library Magazine	29	-	8	21	-	-	21
Student Council	2,229	2,830	2,050	3,009	-	-	3,009
FFA-Schol-Truck Ticket	575	1,575	-	2,150	-	-	2,150
Academic Team	5	692	297	400	-	-	400
FCA	321	500	7	814	-	-	814
FFA- Region Lincoln Trail	1,471	925	2,283	113	-	-	113
Board Floriculture	-	294	294	-	-	-	-
Board Food Science	-	939	939	-	-	-	-
Girls Golf	1,413	3,398	4,138	673	-	-	673
Girls Soccer	7,998	10,338	14,736	3,600	-	1,725	1,875
Athletic	15,247	101,595	95,901	20,941	-	50	20,891
Board Athletics	-	60	60	-	-	-	-
Boy's Basketball	3,415	14,098	14,791	2,722	-	-	2,722
Turf Replacement Fund	58,578	7,144	-	65,722	-	-	65,722
Track/Cross Country	5,425	20,655	19,730	6,350	-	-	6,350
Pep Club/The End Zone	-	350	122	228	-	-	228
Boy's Soccer	2,102	3,173	3,181	2,094	-	-	2,094
Dance Team	1,209	-	-	1,209	-	-	1,209
Archery	1,168	8,812	5,583	4,397	-	-	4,397
Tennis	882	282	826	338	-	-	338
Baseball	5,365	14,178	15,755	3,788	-	-	3,788
Girls Softball	1,628	15,764	13,479	3,913	-	-	3,913
Volleyball	1,757	7,913	6,814	2,856	-	-	2,856
Boy's Golf	2,428	380	1,434	1,374	-	-	1,374
Swim Team	606	1,455	396	1,665	-	-	1,665

See accompanying independent auditor's report.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

(Continued)

NAME OF ACTIVITY	CASH BALANCES July 1, 2016	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2017	RECEIVABLES June 30, 2017	ACCOUNTS PAYABLE June 30, 2017	DUE TO STUDENT GROUPS June 30, 2017
Cheerleaders	808	9,317	7,564	2,561	-	2,039	522
Bowling	772	4,357	4,109	1,020	-	-	1,020
Lady Cards Basketball	716	15,758	11,562	4,912	-	-	4,912
Wrestling	38	1,450	-	1,488	-	-	1,488
Football	2,634	4,732	5,314	2,052	-	6,675	(4,623)
N.C. Elem Boys Bsktbl	973	33,864	14,810	20,027	-	-	20,027
Board Project Graduation	-	9,786	9,786	-	-	-	-
Project Graduation	960	18,293	18,209	1,044	-	-	1,044
FFA Alumni	1,331	6,247	4,475	3,103	-	-	3,103
Sub total	218,062	587,552	555,481	250,133	70	10,929	239,274
Transfers	-	(27,026)	(27,026)	-	-	-	-
TOTALS	<u>\$ 218,062</u>	<u>\$ 560,526</u>	<u>\$ 528,455</u>	<u>\$ 250,133</u>	<u>\$ 70</u>	<u>\$ 10,929</u>	<u>\$ 239,274</u>

See accompanying independent auditor's report.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

NAME OF ACTIVITY	CASH BALANCES July 1, 2016	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2017	RECEIVABLES June 30, 2017	ACCOUNTS PAYABLE June 30, 2017	DUE TO STUDENT GROUPS June 30, 2017
General	\$ 101	\$ 8,103	\$ 8,199	\$ 5	\$ -	\$ -	\$ 5
Board Account	-	33,398	33,398	-	-	-	-
Board - Project Liftoff	-	32,244	32,244	-	-	-	-
General Hand	-	782	782	-	-	-	-
Laying the Foundation	322	-	-	322	-	-	322
Tuition	148	-	148	-	-	-	-
KYA	759	6,320	7,076	3	-	-	3
Junior Chef	74	-	74	-	-	-	-
Guidance	34	-	34	-	-	-	-
SEA	492	-	-	492	-	-	492
SOC	2,793	3,665	4,154	2,304	-	-	2,304
Concessions	11,747	41,568	43,034	10,281	-	-	10,281
Concession Equipment	5,398	4,497	3,042	6,853	-	-	6,853
Athletics	7,722	50,241	56,432	1,531	-	220	1,311
Staff Vending	517	3,271	3,556	232	-	11	221
Nurse	115	-	115	-	-	-	-
Pep Club	1,318	-	55	1,263	-	-	1,263
Ping Pong Club	-	-	-	-	-	-	-
Leadership Dynamics	2,877	-	-	2,877	-	-	2,877
STLP	8	-	-	8	-	-	8
FBLA	394	80	-	474	-	-	474
FCA	252	-	-	252	-	-	252
Key Club	3,033	1,019	377	3,675	-	-	3,675
General Care	220	-	220	-	-	-	-
VAPA	-	428	221	207	-	-	207
Beta Club	4,586	11,789	13,285	3,090	-	-	3,090
tCOY	-	515	512	3	-	-	3
Science/Engineering Club	290	-	-	290	-	-	290
Academic Team/FPS	-	325	325	-	-	-	-
Football	12,663	25,421	28,017	10,067	-	191	9,876
Volleyball	1,288	17,204	17,543	949	-	-	949
Boys Basketball	4,242	5,585	9,459	368	-	208	160
Boy's Soccer	1,927	3,061	3,025	1,963	-	-	1,963
Girl's Soccer	6,233	4,470	3,838	6,865	-	4,840	2,025
Golf	596	-	84	512	-	-	512
Bowling	346	1,076	1,242	180	-	-	180
Cross Country	2,463	6,881	9,179	165	-	-	165
Track and Field	-	285	285	-	-	-	-
Baseball	3,626	2,054	4,907	773	-	-	773
Wrestling	1,103	343	794	652	-	-	652
Girls Basketball	4,062	18,210	10,401	11,871	-	-	11,871
Archery	3,753	7,051	4,397	6,407	-	-	6,407
Girl's Softball	6,857	4,406	7,975	3,288	-	75	3,213
Swim Team	80	1,749	1,795	34	-	-	34
Cheerleading	1,534	13,710	12,194	3,050	-	2,058	992
Tennis	371	290	538	123	-	-	123
Dance Team	145	892	492	545	-	-	545
General Exposure	-	125	125	-	-	-	-
Band	1,587	14,386	14,377	1,596	-	-	1,596
Drama	1,125	2,110	1,163	2,072	-	-	2,072
General Store	-	-	-	-	-	-	-
FFA	340	15,889	14,728	1,501	-	-	1,501
Corn Maze	2,144	14,345	9,902	6,587	-	-	6,587
Dodge	1,624	-	1,624	-	-	-	-
FFA Alumni	4,949	2,225	3,543	3,631	-	-	3,631
Farm Bureau FFA	650	1,150	1,219	581	-	-	581
AP Test	2,036	20,828	21,704	1,160	-	-	1,160
Project Liftoff	207	17,386	14,553	3,040	-	-	3,040
Prom	9,668	6,370	5,372	10,666	-	-	10,666

See accompanying independent auditor's report.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

(Continued)

NAME OF ACTIVITY	CASH BALANCES July 1, 2016	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2017	RECEIVABLES June 30, 2017	ACCOUNTS PAYABLE June 30, 2017	STUDENT GROUPS June 30, 2017
Library	517	-	-	517	-	-	517
Yearbook	19,230	3,375	5,882	16,723	-	-	16,723
Art	559	-	-	559	-	-	559
Physical Ed	114	-	-	114	-	-	114
National Honor Society	926	940	847	1,019	-	-	1,019
Sub total	140,165	410,062	418,487	131,740	-	7,603	124,137
Transfers	-	(33,920)	(33,920)	-	-	-	-
TOTALS	<u>\$ 140,165</u>	<u>\$ 376,142</u>	<u>\$ 384,567</u>	<u>\$ 131,740</u>	<u>\$ -</u>	<u>\$ 7,603</u>	<u>\$ 124,137</u>

See accompanying independent auditor's report.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster -			
Cash Assistance			
Passed Through State Department of Education			
School Breakfast Program	10.553	7760005-16	\$ 87,387
		7760005-17	359,324
National School Lunch Program	10.555	7750002-16	254,145
		7750002-17	980,342
Summer Food Service Program for Children	10.559	7690024-16	1,957
		7740023-17	33,272
Non-Cash Assistance (Commodities)			
National School Lunch Program	10.555	4003164	180,000
TOTAL U.S. DEPT. OF AGRICULTURE			1,896,427
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Special Education Cluster (IDEA) -			
Passed Through State Department of Education			
Special Education - Grants to States	84.027	337B	113,353
		337BP	1,426
		337C	658,264
		337CP	2,542
Special Education - Preschool Grants	84.173	343B	8,130
		343C	39,219
		343CP	10,283
			833,217
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Passed Through State Department of Education			
Title I Grants to Local Educational Agencies	84.010	310B	293,069
		310AM	4,919
		310C	533,055
		310CP	3,954
		310BM	1,754
			836,751
Vocational Education - Basic Grants to States	84.048	348B	6,278
		348BA	476
		348C	23,779
			30,533
Twenty-First Century Community Learning Centers	84.287	550AU	976
Improving Teacher Quality - State Grants	84.367	401B	157,165
		401C	167,957
			325,122
TOTAL U.S. DEPARTMENT OF EDUCATION			2,026,599
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,923,026

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2017

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Nelson County School District under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Nelson County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of Nelson County School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – FOOD DISTRIBUTION

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

NOTE D – INDIRECT COST RATE

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

NOTE E – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2017

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 2CFR 200.516(a)? ☐ yes ☒ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.553 / 10.555 / 10.559

Child Nutrition Cluster

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2017

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

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

Significant Deficiency – Procurement

Criteria: Part 200 of Title 2 of the U.S. Code of Federal Regulations titled, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, lays out the basic procurement requirements that entities must comply with for the procurement of goods and services, when using federal funds.

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

Questioned Costs: None

Context: This was noted during a review of purchasing procedures.

Effect The District could have purchased from vendors who did not meet federal procurement requirements.

Cause: The District was not aware of the additional requirements.

Recommendation: The District should adopt revised procurement procedures.

Views of Responsible Officials and Planned Corrective Actions: The District implemented revised procurement procedures effective July 1, 2017.

NELSON COUNTY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2017

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**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Nelson County School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Nelson County School District's basic financial statements, and have issued our report thereon dated November 10, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be

reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We also noted certain other matters that we reported to management of Nelson County School District in a separate letter dated November 10, 2017.

Purpose of this Report

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

Stiles, Carter & Associates

Certified Public Accountants
Bardstown, Kentucky
November 10, 2017



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

Kentucky State Committee for School District Audits and
Members of the Board of Education
Nelson County School District
Taylorsville, 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, 2017. 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, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

Nelson County School District's Response to Findings

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

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

Stiles, Carter & Associates

Certified Public Accountants
Bardstown, Kentucky
November 10, 2017



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Taylorsville, Kentucky

In planning and performing our audit of the financial statements of Nelson County School District for the year ended June 30, 2017, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. A separate report dated November 10, 2017 contains our report on the District's internal control structure. This letter does not affect our report dated November 10, 2017 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,

Stiles, Carter & Associates

Certified Public Accountants
Bardstown, Kentucky
November 10, 2017

NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2017

BOSTON SCHOOL

CREDIT CARD SIGN IN-OUT SHEET

SCA noted that the old form of the sheet was being used and no PO numbers were noted on the check out sheet. I met with the Principal and bookkeeper and they said they would use the updated sheet and be sure to include PO #'s when the card(S) are checked out. This is a repeat finding from the prior year.

MANAGEMENT'S RESPONSE

We will monitor this situation closely in FY 18. I believe with the change in staff, training and continued internal auditing will resolve this going forward.

BANK RECONCILIATION

SCA noted the bank reconciliation for June 30, 2017 was not completed accurately and timely. A new bookkeeper started in June 2017 and she said she could not get the report to balance. She has since been provided training and corrected the bank reconciliations for June and July 2017.

MANAGEMENT'S RESPONSE

This is simply a function of staff turnover, we feel the issue is resolved as we have new staff in place.