NELSON COUNTY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2013

NELSON COUNTY SCHOOL DISTRICT

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Nelson County School District (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations,* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirement, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Nelson County School District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 – 10 and 41 – 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and school activity funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirement, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report,* we have also issued our report dated November 11, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Smith & Company CPA's, PLLC

Bardstown, Kentucky
November 11, 2013

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, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash and cash equivalents balance for the District was $2.409 million.
- Construction in process of approximately $25.92 million was reclassified to buildings and improvements as a result of the completion of Phases I & II for Thomas Nelson High School.
- Local tax levied at the four percent rate increase of 67.0 cents per $100 for real estate and tangible property. No change in the motor vehicle tax at 54.8 cents per $100 of assessed property.
- From fiscal year 2012 to 2013, total revenues from governmental activities increased approximately $938,000 primarily due to increased tax revenues that offset a decrease in state grant revenues.
- The district adopted a budget in May 2013 for the upcoming year with $2.125 million in contingency (4.17% of total budgeted expenditures).
- The District saw one new School Board member appointed in January 2013.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

These statements are presented on an "economic recourses'" 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 21 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by approximately $33.5 million as of June 30, 2013.

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

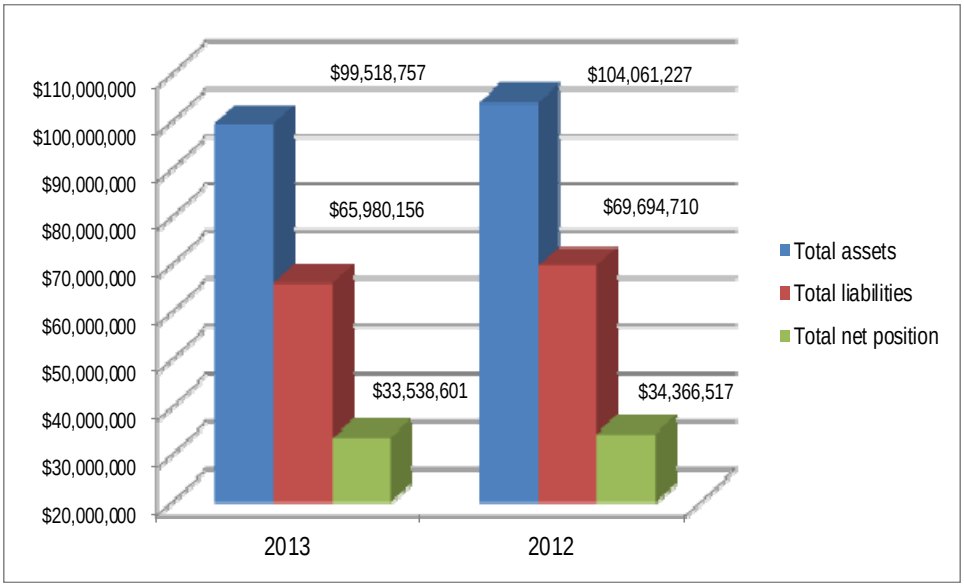
The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position

The 2013 Government-wide net position compared to 2012 is as follows:

Net Position
(Table 1)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	$ 2,749,072	$ 4,741,909	$ 844,190	$ 997,703	$ 3,593,262	$ 5,739,612
Capital assets	95,050,395	97,348,529	875,100	973,086	95,925,495	98,321,615
Total assets	97,799,467	102,090,438	1,719,290	1,970,789	99,518,757	104,061,227
Long-term debt	62,146,789	65,312,680	-	-	62,146,789	65,312,680
Other liabilities	3,833,367	4,382,030	-	-	3,833,367	4,382,030
Total liabilities	65,980,156	69,694,710	-	-	65,980,156	69,694,710
Net position:						
Invested in capital assets net of related debt	30,246,923	29,675,875	875,100	973,086	31,122,023	30,648,961
Restricted	-	724,535	-	-	-	724,535
Unrestricted	1,572,388	1,995,318	844,190	997,703	2,416,578	2,993,021
					-	-
Total net position	$ 31,819,311	$ 32,395,728	$ 1,719,290	$ 1,970,789	$ 33,538,601	$ 34,366,517



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

- Capital assets decreased approximately $2.4 million due to current year depreciation of $3.7 million offset by FY2013 additions approximately $1.3 million primarily as a result of final construction costs related to Thomas Nelson High School, new computers and network equipment, and four new school buses.
- Long-term debt primarily decreased as a result of no new debt being issued in fiscal year 2013 and scheduled bond principal reduction of approximately $2.99 million.

Change in Net Position

The following Table 2 presents the summary of changes in net position for the fiscal years ending June 30, 2013 and 2012.

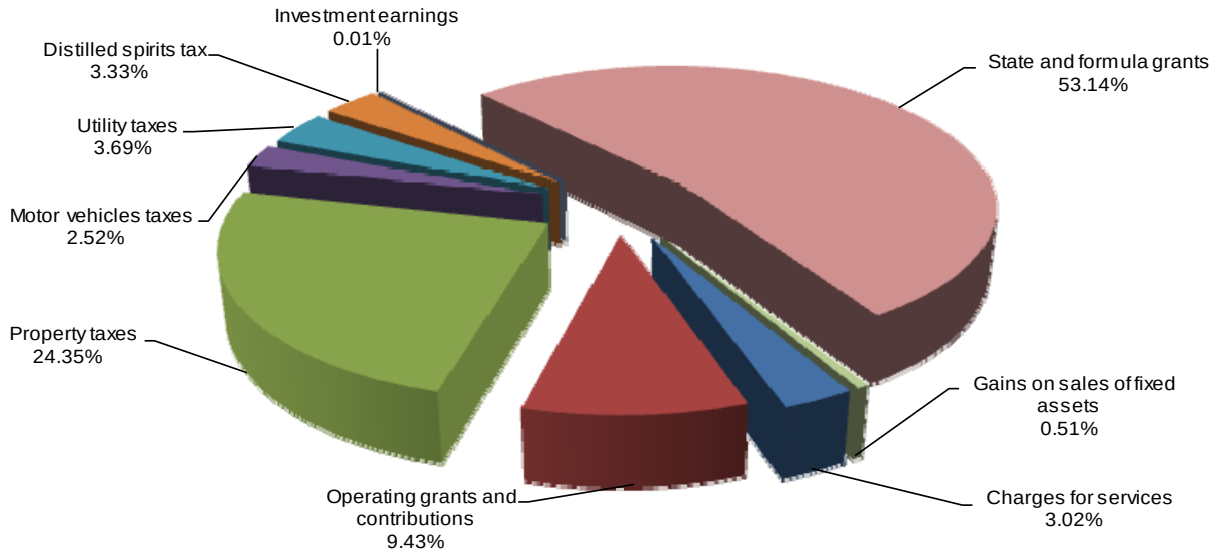
Changes in Net Position
(Table 2)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
REVENUES						
Program Revenues						
Charges for services	$ 34,454	$ 111,479	$ 1,350,141	$ 1,272,538	$ 1,384,595	$ 1,384,017
Operating grants and contributions	2,263,576	2,916,460	2,056,191	1,914,522	4,319,767	4,830,982
Capital grants and contributions	1,367,213	-	-	-	1,367,213	-
General Revenues						
Property taxes	11,143,592	10,627,950	-	-	11,143,592	10,627,950
Motor vehicle taxes	1,154,044	1,107,414	-	-	1,154,044	1,107,414
Utility taxes	1,691,531	1,644,761	-	-	1,691,531	1,644,761
Distilled spirits tax	1,523,044	1,412,595	-	-	1,523,044	1,412,595
Investment earnings	3,764	32,188	-	-	3,764	32,188
State and formula grants	24,330,542	24,792,053	-	-	24,330,542	24,792,053
Gain (loss) on sale of equipment	42,055	-	(1,707)	-	40,348	-
Miscellaneous	233,790	205,097	-	-	233,790	205,097
Total revenues	43,787,605	42,849,997	3,404,625	3,187,060	47,192,230	46,037,057
EXPENSES						
Program Activities						
Instruction	24,146,475	23,565,164	-	-	24,146,475	23,565,164
Student support	1,676,188	1,783,745	-	-	1,676,188	1,783,745
Instruction staff support	1,871,223	1,900,035	-	-	1,871,223	1,900,035
District administration support	1,014,118	1,174,080	-	-	1,014,118	1,174,080
School administrative support	2,680,773	2,564,349	-	-	2,680,773	2,564,349
Business support	1,759,856	1,197,787	-	-	1,759,856	1,197,787
Plant operation and maintenance	4,708,642	4,299,168	-	-	4,708,642	4,299,168
Student transportation	3,300,211	3,632,870	-	-	3,300,211	3,632,870
Community service activities	333,740	331,959	-	-	333,740	331,959
Interest on long-term debt	2,972,796	1,613,542	-	-	2,972,796	1,613,542
Business-type Activities						
Food service	-	-	3,071,159	2,692,709	3,071,159	2,692,709
Child care	-	-	484,965	469,710	484,965	469,710
Total expenses	44,464,022	42,062,699	3,556,124	3,162,419	48,020,146	45,225,118
Transfers	100,000	(206,135)	(100,000)	206,135	-	-
CHANGE IN NET POSITION	$ (576,417)	$ 581,163	$ (251,499)	$ 230,776	$ (827,916)	$ 811,939

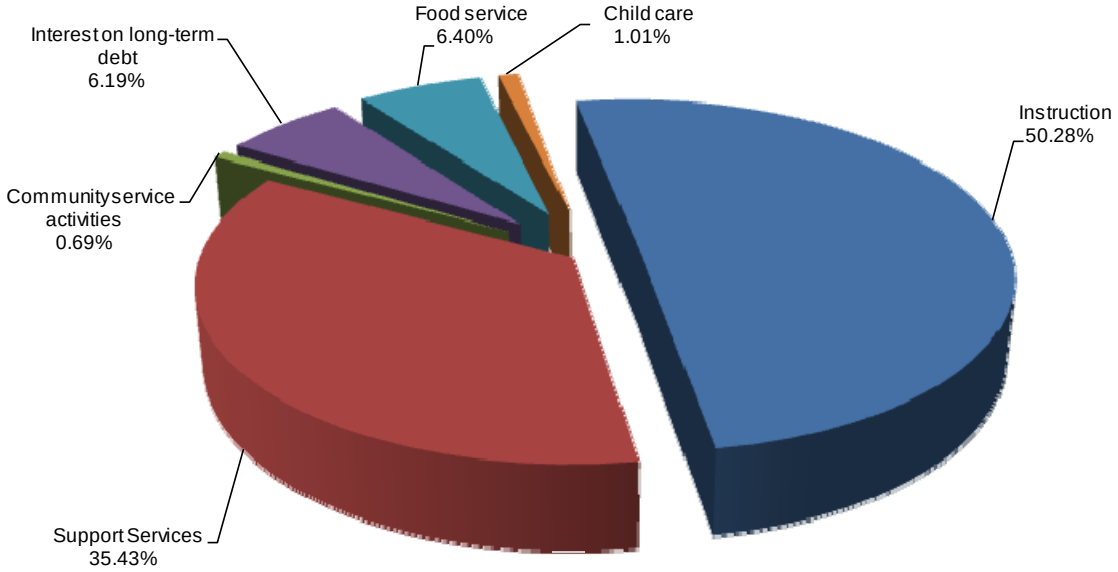
The following are significant current year transactions impacting the Changes in Net Position:

- Federal operating grant revenues decreased approximately $770,000 due to reductions in federal grants in part related to Federal Education Jobs Program funds received in the prior year that expired in fiscal year 2013.
- Total expenses increased approximately $2.4 million as a result of an increase in depreciation expense of $912,900 over depreciation expense of the prior year; an increase in interest expense of approximately $1.36 million.

The following provides a breakdown of total primary government revenues for the year ending June 30, 2013:



The following provides a breakdown of total primary government expenses for the year ending June 30, 2013:



Capital Assets

At the end of fiscal year 2013, the School District had approximately $94.7 million invested in land, building and improvements, vehicles, equipment, and construction in process. Table 3 shows fiscal year 2013 and 2012 balances.

Capital Assets, Net of Depreciation
(Table 3)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Land	$ 2,921,133	$ 2,921,133	$ -	$ -	$ 2,921,133	$ 2,921,133
Buildings and improvements	88,717,548	65,814,598	-	-	88,717,548	65,814,598
Technology Equipment	454,886	325,748	10,462	8,174	465,348	333,922
Vehicles	1,881,004	1,870,922	-	-	1,881,004	1,870,922
General equipment	687,696	723,412	864,638	964,912	1,552,334	1,688,324
Total	94,662,267	71,655,813	875,100	973,086	95,537,367	72,628,899
Construction in process	-	25,266,971	-	-	-	25,266,971

The following were major additions and capital assets placed in service during fiscal year 2013:

Completion of Thomas Nelson High School	$ 650,803
Computer and Network Peripherals	$ 283,504
Four school buses	$ 333,688

Debt

At June 30, 2013, the School District had $66,030,000 in bonds outstanding. Of this amount, $8,396,318 is to be paid by the Kentucky School Facility Construction Commission. A total of $3,115,000 is due within one year.

General Fund – Budget Highlights

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

For the General Fund, revenues were budgeted at approximately $34.3 million with actual amounts of approximately $34.4 million. Budgeted expenditures of approximately $34.7 million compare with actual expenditures of approximately $35.1 million. The most significant fluctuation is for plant operation and maintenance expenditures for capital items that exceeded budget by approximately $602,000.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 22-40 of this report.

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 2012-2013 with approximately $2.1 million in contingency (5.25%). The District has adopted a budget for 2013-2014 with an approximate 4.17% contingency.

ADDITIONAL CONTACT INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions regarding this report or requests for additional information should be directed to Tim Hockensmith, Director of Administrative Services, 288 Wildcat Lane, Bardstown, Kentucky, 40004, (502) 349-7000.

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2013

Assets	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash and cash equivalents	$ 1,817,923	$ 591,054	$ 2,408,977
Inventory	-	65,990	65,990
Accounts receivable:			
Taxes - current	346,113	-	346,113
Taxes - delinquent	27,044	-	27,044
Other	-	-	-
Intergovernmental - State	43,196	-	43,196
Intergovernmental - Indirect Federal	514,796	187,146	701,942
Investments	-	-	-
Total current assets	2,749,072	844,190	3,593,262
Capital Assets, Net			
Capital assets, net	94,662,267	875,100	95,537,367
Other Assets			
Bond issue costs, net of accumulated amortization of $205,747	388,128	-	388,128
Total noncurrent assets	95,050,395	875,100	95,925,495
Total assets	$ 97,799,467	$ 1,719,290	$ 99,518,757
Liabilities & Net Position			
Current Liabilities			
Accounts payable	$ 203,926	$ -	$ 203,926
Accrued salaries and benefits payable	1,786	-	1,786
Deferred revenue	71,029	-	71,029
Interest payable	327,047	-	327,047
Current portion of bond obligations	3,115,000	-	3,115,000
Current portion of accrued sick leave	114,579	-	114,579
Total Current Liabilities	3,833,367	-	3,833,367
Noncurrent Liabilities			
Noncurrent portion of bond obligations	62,915,000	-	62,915,000
Less: bond discount	(707,270)	-	(707,270)
Less: deferred amount on refunding	(519,258)	-	(519,258)
Noncurrent portion of accrued sick leave	458,317	-	458,317
Total Noncurrent Liabilities	62,146,789	-	62,146,789
Total Liabilities	65,980,156	-	65,980,156
Net Position			
Invested In capital assets, net of related debt	30,246,923	875,100	31,122,023
Restricted for:			
Construction	-	-	-
Debt service	-	-	-
Unrestricted	1,572,388	844,190	2,416,578
Total Net Position	$ 31,819,311	$ 1,719,290	$ 33,538,601

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

NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

		Program Revenues			Net (Expense) Revenue And Changes In Net Position		
	Expenses	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS / PROGRAMS							
Governmental Activities:							
Instruction	$ 24,146,475	$ 34,454	$ 2,152,066	$ -	$ (21,959,955)	$ -	$ (21,959,955)
Support Services:							
Student	1,676,188	-	-	-	(1,676,188)	-	(1,676,188)
Instruction staff	1,871,223	-	-	-	(1,871,223)	-	(1,871,223)
District administration	1,014,118	-	-	-	(1,014,118)	-	(1,014,118)
School administrative	2,680,773	-	-	-	(2,680,773)	-	(2,680,773)
Business	1,759,856	-	-	-	(1,759,856)	-	(1,759,856)
Plant operation and maintenance	4,708,642	-	-	-	(4,708,642)	-	(4,708,642)
Student transportation	3,300,211	-	111,510	-	(3,188,701)	-	(3,188,701)
Community service activities	333,740	-	-	-	(333,740)	-	(333,740)
Interest on long-term debt	2,972,796	-	-	1,367,213	(1,605,583)	-	(1,605,583)
Total Governmental Activities	44,464,022	34,454	2,263,576	1,367,213	(40,798,779)	-	(40,798,779)
Business-Type Activities:							
Food service	3,071,159	895,123	1,977,256	-	-	(198,780)	(198,780)
Child care	484,965	455,018	78,935	-	-	48,988	48,988
Total Business-Type Activities	3,556,124	1,350,141	2,056,191	-	-	(149,792)	(149,792)
Total Primary Government	$ 48,020,146	$ 1,384,595	$ 4,319,767	$ 1,367,213	(40,798,779)	(149,792)	(40,948,571)
			General revenues:				
			Taxes:				
			Property taxes		11,143,592	-	11,143,592
			Motor vehicles taxes		1,154,044	-	1,154,044
			Utility taxes		1,691,531	-	1,691,531
			Distilled spirits tax		1,523,044	-	1,523,044
			Investment earnings		3,764	-	3,764
			State aid formula grants		24,330,542	-	24,330,542
			Gain (loss) on sale of equipment		42,055	(1,707)	40,348
			Miscellaneous		233,790	-	233,790
			Total general revenues		40,122,362	(1,707)	40,120,655
			Transfers		100,000	(100,000)	-
			Change In Net Position		(576,417)	(251,499)	(827,916)
			Net Position - Beginning		32,395,728	1,970,789	34,366,517
			Net Position - Ending		$ 31,819,311	$ 1,719,290	$ 33,538,601

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

NELSON COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2013

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	$ 2,261,689	$ (69,187)	$ -	$ -	$ 2,192,502
Accounts receivable	416,354	514,797	-	-	931,151
Investments	-	-	-	-	-
Total assets	$ 2,678,043	$ 445,610	$ -	$ -	$ 3,123,653
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	$ 203,926	$ -	$ -	$ -	$ 203,926
Cash overdraft	-	374,580	-	-	374,580
Accrued liabilities	1,786	-	-	-	1,786
Deferred revenue	-	71,030	-	-	71,030
Total liabilities	205,712	445,610	-	-	651,322
Fund Balances:					
Restricted	-	-	-	-	-
Committed	1,270,756	-	-	-	1,270,756
Assigned	-	-	-	-	-
Unrestricted	1,201,575	-	-	-	1,201,575
Total Fund Balances	2,472,331	-	-	-	2,472,331
Total liabilities and fund balances	$ 2,678,043	$ 445,610	$ -	$ -	$ 3,123,653

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

NELSON COUNTY SCHOOL DISTRICT

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

JUNE 30, 2013

Total fund balance per fund financial statements	$	2,472,331
Amounts reported for governmental activities in the statement of net assets 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 assets.		94,662,267
Certain long-term assets are not reported in this fund financial statements because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.		388,128
Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.		
Bonds payable		(66,030,000)
Bond discount		707,270
Deferred amount on refunding		519,258
Interest payable		(327,047)
Accrued sick leave		(572,896)
Net position for governmental activities	$	31,819,311

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	General	Special	Construction	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	$ 7,933,592	$ -	$ -	$ 3,210,000	$ 11,143,592
Motor vehicle	1,154,044	-	-	-	1,154,044
Utilities	1,691,531	-	-	-	1,691,531
Distilled spirits tax	1,523,044	-	-	-	1,523,044
Tuition and fees	4,304	30,150	-	-	34,454
Earnings on investments	3,764	-	-	-	3,764
Other local revenues	202,052	178,386	-	-	380,438
Intergovernmental - intermediate	-	-	-	-	-
Intergovernmental - state	21,844,565	1,178,083	-	2,718,429	25,741,077
Intergovernmental - indirect federal	-	2,073,605	-	-	2,073,605
Intergovernmental - direct federal	-	-	-	-	-
Total revenues	34,356,896	3,460,224	-	5,928,429	43,745,549
Expenditures:					
Instruction	19,633,599	2,290,910	-	-	21,924,509
Support services:					
Student	1,426,019	264,960	-	-	1,690,979
Instruction staff	1,662,422	175,843	-	-	1,838,265
District administration	961,274	-	-	-	961,274
School administrative	2,666,567	-	-	-	2,666,567
Business	1,506,300	247,568	-	-	1,753,868
Plant operation and maintenance	4,136,890	24,040	-	-	4,160,930
Student transportation	3,100,817	216,163	-	-	3,316,980
Facilities acquisition and maintenance	-	-	833,507	-	833,507
Community service activities	2,578	331,241	-	-	333,819
Debt service	-	-	-	5,819,457	5,819,457
Total Expenditures	35,096,466	3,550,725	833,507	5,819,457	45,300,155
Excess (deficit) of revenues over expenditures	(739,570)	(90,501)	(833,507)	108,972	(1,554,606)
Other financing sources (uses)					
Proceeds from sale of bonds	-	-	-	-	-
Bond discount	-	-	-	-	-
Payment to refund bond escrow agent	-	-	-	-	-
Proceeds from sale of fixed assets	44,388	-	-	-	44,388
Operating transfers in	100,000	90,501	108,972	4,452,244	4,751,717
Operating transfers out	(90,501)	-	-	(4,561,216)	(4,651,717)
Total other financing sources (uses)	53,887	90,501	108,972	(108,972)	144,388
Net change in fund balances	(685,683)	-	(724,535)	-	(1,410,218)
Fund balance, July 1, 2012	3,158,014	-	724,535	-	3,882,549
Fund balance, June 30, 2013	$ 2,472,331	$ -	$ -	$ -	$ 2,472,331

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

NELSON COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2013

Net change in total fund balances per fund financial statements	$	(1,410,218)
Amounts reported for governmental activities in the statement of activities are different because of the following:		
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.		(2,258,185)
Debt service payments are reported as expenditures in this fund financial statement because they use current financial resources, but they are separated and shown as payments of long-term debt on the statement of net position and interest expense on the statement of activities. The difference is the amount of principal payment made for the year.		2,994,808
In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.		(2,333)
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.		99,511
Change in net position of governmental activities	$	(576,417)

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

JUNE 30, 2013

	Food Service Fund	Child Care Fund	Total
Assets			
Current Assets			
Cash and cash equivalents	$ 345,345	$ 245,709	$ 591,054
Inventory	65,990	-	65,990
Accounts receivable	-	-	-
Intergovernmental - indirect federal	187,146	-	187,146
Investments	-	-	-
Total current assets	598,481	245,709	844,190
Capital Assets, Net			
Capital assets, net	875,100	-	875,100
Total assets	$ 1,473,581	$ 245,709	$ 1,719,290
Liabilities & Net Assets			
Current Liabilities			
Accounts payable	$ -	$ -	$ -
Accrued expenses	-	-	-
Due to other funds	-	-	-
Total current liabilities	-	-	-
Net Position			
Invested In capital assets, net of related debt	875,100	-	875,100
Unrestricted	598,481	245,709	844,190
Total net position	$ 1,473,581	$ 245,709	$ 1,719,290

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	Food Service Fund	Child Care Fund	Total
Operating revenues:			
Lunchroom sales	$ 895,123	$ -	$ 895,123
Tuition and fees	-	455,018	455,018
Other operating revenues	-	-	-
Total operating revenues	895,123	455,018	1,350,141
Operating expenses:			
Salaries and wages	1,522,288	446,719	1,969,007
Materials and supplies	1,371,267	30,660	1,401,927
Depreciation	118,982	-	118,982
Other operating expenses	58,621	7,586	66,207
Total operating expenses	3,071,158	484,965	3,556,123
Income (loss) from operations	(2,176,035)	(29,947)	(2,205,982)
Non-operating revenues (expenses):			
Federal grants	1,499,432	-	1,499,432
State grants	273,387	78,935	352,322
Donated commodities	204,436	-	204,436
Fund transfers	-	(100,000)	(100,000)
Loss on sale of equipment	(1,707)	-	(1,707)
Interest income	-	-	-
Total non-operating revenues (expenses)	1,975,548	(21,065)	1,954,483
Change in net position	(200,487)	(51,012)	(251,499)
Net position, July 1, 2012	1,674,068	296,721	1,970,789
Net position, June 30, 2013	$ 1,473,581	$ 245,709	$ 1,719,290

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	Food Service Fund	Child Care Fund	Total
Cash Flows From Operating Activities			
Cash received from:			
Lunchroom sales	$ 895,123	$ -	$ 895,123
Tuition and fees	-	455,018	455,018
Cash paid to / for:			
Employees	(1,275,266)	(367,784)	(1,643,050)
Supplies	(1,163,344)	(30,660)	(1,194,004)
Other activities	(58,621)	(7,586)	(66,207)
Net cash provided by (used in) operating activities	(1,602,108)	48,988	(1,553,120)
Cash Flows From Non-Capital Financing Activities			
Federal grants	1,312,285	-	1,312,285
State grants	26,365	-	26,365
Transfers from (to) other funds	-	(100,000)	(100,000)
Net cash provided by (used in) non-capital financing activities	1,338,650	(100,000)	1,238,650
Cash Flows From Capital & Related Financing Activities			
Purchases of capital assets	(22,702)	-	(22,702)
Net increase (decrease) in cash and cash equivalents	(286,160)	(51,012)	(337,172)
Balances, beginning of year	631,505	296,721	928,226
Balances, end of year	$ 345,345	$ 245,709	$ 591,054
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income	$ (2,176,035)	$ (29,947)	$ (2,205,982)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	118,982	-	118,982
Donated commodities	204,436	-	204,436
State on-behalf payments	247,022	78,935	325,957
Change in assets and liabilities:			
Inventory	3,487	-	3,487
Net cash provided by (used in) operating activities	$ (1,602,108)	$ 48,988	$ (1,553,120)

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2013

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	$ 69,187	$ 753,071
Accounts receivable	-	-
Total Assets	$ 69,187	$ 753,071
Liabilities		
Accounts payable	$ -	$ -
Due to student groups	-	753,071
Total Liabilities	-	753,071
Net Position Held In Trust	$ 69,187	$ -

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	Private Purpose Trust Funds
Additions	
Transfer in from Education Foundation	$ 103,530
Deductions	
Expenses paid	34,343
Change In Net Assets	69,187
Net Position, Beginning Of Year	-
Net Position, End Of Year	$ 69,187

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

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

Basis of Presentation

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

The District has the following funds:

I. Governmental Fund Types

A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund and any fund balances are considered as resources available for use. This is a major fund of the District.

B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 51 – 52. This is a major fund of the District.

C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

D. The Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

II. Proprietary Fund Types (Enterprise Fund)

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

B. The Child Care Fund is used to account for after school revenues and programs where a fee is charged for participating.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

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

B. The Private Purpose Trust fund is used to report trust arrangements under which the income benefits individuals, private organizations or other governments.

Basis of Accounting

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were $0.67 per $100 valuation for real property, $0.67 per $100 valuation for business personal property and $0.548 per $100 valuation for motor vehicles.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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

Description	Governmental Activities Estimated Lives
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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budgetary Process

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

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

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than $50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end in accordance with state law.

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

Cash and Cash Equivalents

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

Inventories

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

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

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

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2013 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Position

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

Operating Revenues

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

Contributions of Capital

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interfund Activity

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

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's cash and cash equivalents was $6,741,320. $250,000 of bank account balances per separate banks is covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Breakdown per financial statements:

Governmental Funds	$	1,817,923
Proprietary Funds		591,054
	$	2,408,977

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 $753,071.

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

NOTE D – DEPOSITS AND INVESTMENTS

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

Investments

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

Concentration of Credit Risk – The District, in accordance with KRS 66.480, limits the amount that may be invested at any time in uncollateralized certificates of deposit, bankers acceptances, commercial paper and securities issued by a state or local government or any instrumentality or agency thereof, to 20% of the total amount of funds invested by the District. At June 30, 2013, the District did not hold any investments in excess of this limit.

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

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

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

NOTE E – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

Governmental Activities	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Non-depreciable assets:				
Land	$ 2,921,133	$ -	$ -	$ 2,921,133
Construction in process	25,266,971	650,803	25,917,774	-
Depreciable assets:				
Buildings and improvements	90,784,589	25,917,774	-	116,702,363
Technology equipment	2,204,300	283,504	27,041	2,460,763
Vehicles	5,703,780	333,688	456,183	5,581,285
General equipment	1,855,900	41,559	2,979	1,894,480
Totals at historical cost	128,736,673	27,227,328	26,403,977	129,560,024
Accumulated depreciation:				
Buildings and improvements	24,969,991	3,014,824	-	27,984,815
Technology equipment	1,878,552	152,530	25,205	2,005,877
Vehicles	3,832,858	323,607	456,184	3,700,281
General equipment	1,132,488	76,779	2,483	1,206,784
Total accumulated depreciation	31,813,889	3,567,740	483,872	34,897,757
Governmental activities capital assets, net	$ 96,922,784	$ 23,659,588	$ 25,920,105	$ 94,662,267

Depreciation was charged to government functions as follows:

Instruction	$ 2,802,462
District administration	58,697
School administration	14,206
Business support	5,988
Plant	369,467
Transportation	316,920
Total	$ 3,567,740

Construction in process totaling $25,917,774 related to Thomas Nelson High School was placed in service during fiscal year 2013 and has been reclassified to buildings.

NOTE E – CAPITAL ASSETS – CONTINUED

Business-Type Activities	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Depreciable assets:				
Technology equipment	$ 67,232	$ 4,917	$ -	$ 72,149
General equipment	1,957,462	17,785	14,316	1,960,931
Totals at historical cost	2,024,694	22,702	14,316	2,033,080
Accumulated depreciation:				
Technology equipment	59,058	2,629	-	61,687
General equipment	992,550	116,352	12,609	1,096,293
Total accumulated depreciation	1,051,608	118,981	12,609	1,157,980
Business-type activities capital assets, net	$ 973,086	$ (96,279)	$ 1,707	$ 875,100

NOTE F – LONG-TERM OBLIGATIONS

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

Issue Date	Original Proceeds	Interest Rates
1994	$ 350,000	5.20%
1998	4,265,000	4.0% - 4.625%
2002	5,365,000	2.0% - 4.0%
2003	14,275,000	3.0% - 4.0%
2004	3,885,000	2.0% - 3.8%
2005	7,245,000	3.0% - 4.0%
2006	2,890,000	3.4% - 4.0%
2007	8,475,000	3.75%
2009	8,250,000	1.4% - 4.0%
2010 A	2,595,000	1.0% - 2.875%
2010 B	20,795,000	0.8 % - 6.0%
2010 C	8,555,000	1.0% - 5.65%
2012	780,000	1.4% - 4.5%
2012 R	8,670,000	0.75% - 2.375%

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

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

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, 2013 for debt service (principal and interest) are as follows:

	Nelson County School District		Ketucky School Facility Construction Commission		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 2,518,250	$ 1,911,286	$ 596,750	$ 285,199	$ 3,115,000	$ 2,196,485
2015	2,604,441	1,831,911	600,559	265,381	3,205,000	2,097,292
2016	2,698,658	1,731,878	621,342	245,167	3,320,000	1,977,045
2017	2,777,803	1,652,825	612,197	226,087	3,390,000	1,878,912
2018	2,850,852	1,582,708	584,148	209,909	3,435,000	1,792,617
2019 - 2023	15,544,218	6,618,825	3,200,782	784,592	18,745,000	7,403,417
2024 - 2028	18,823,904	3,711,987	1,786,096	280,911	20,610,000	3,992,898
2029 - 2033	9,815,556	490,384	394,444	29,091	10,210,000	519,475
	$ 57,633,682	$ 19,531,804	$ 8,396,318	$ 2,326,337	$ 66,030,000	$ 21,858,141

Accumulated Unpaid Sick Leave Benefits

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

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

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Amounts due in one year
Revenue bonds payable	$ 69,024,808	$ -	$ 2,994,808	$ 66,030,000	$ 3,115,000
Accrued sick leave	816,094	93,133	336,331	572,896	114,579
	$ 69,840,902	$ 93,133	$ 3,331,139	$ 66,602,896	$ 3,229,579

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

NOTE G – FUND BALANCES

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2013, the District had no restricted fund balance.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had $1,270,756 in committed funds at June 30, 2013 committed as follows: $265,756 for technology, $430,000 for future construction, $325,000 for buses, and $250,000 committed for sick leave.

Assigned fund balances represent amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. No amounts were assigned related to encumbrances at June 30, 2013.

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

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

NOTE H – RETIREMENT PLANS

Kentucky Teachers' Retirement System

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

NOTE H – RETIREMENT PLANS – CONTINUED

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at http://www.ktrs.ky.gov/.

Participating employees hired before July 1, 2008 contribute 10.855% of creditable compensation. Participating employees hired on or after July 1, 2008 contribute 10.855% of creditable compensation as well. Matching contributions are made by the state. The District contributed 13.105% of the employee's compensation for the fiscal year ended June 30, 2013 for participating employees hired before July 1, 2008. The District contributed 14.105% of the employee's compensation paid by federal programs for the fiscal year ended June 30, 2013 for participating employees hired on or after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions. The Board of Trustees of the Kentucky Retirement Systems determines the contribution rates.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2013 comprehensive annual financial report which is available from Kentucky Retirement Systems. A copy may be obtained from the Legislative Research Library in Frankfort, Kentucky.

Three-year Trend Information

Fiscal Year Ended	Annual Amount Withheld from Employees	Annual Amount Contributed by the District	Total Amount Contributed
6/30/2011	$ 2,020,652	$ 224,578	$ 2,245,230
6/30/2012	$ 2,021,884	$ 230,147	$ 2,252,031
6/30/2013	$ 2,060,162	$ 339,435	$ 2,399,597

County Employees Retirement System

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

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

NOTE H – RETIREMENT PLANS – CONTINUED

Participating employees hired before September 1, 2008 contribute 5.00% of creditable compensation. Participating employees hired on or after September 1, 2008, contribute 6.00% of creditable compensation. The District contributed 19.55% of creditable compensation during the fiscal year ended June 30, 2013. The Board of Trustees of the Kentucky Retirement Systems determines the contribution rates.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2013 comprehensive annual financial report which is available from Kentucky Retirement Systems. A copy may be obtained from the Legislative Research Library in Frankfort, Kentucky.

Three-year Trend Information

Fiscal Year Ended	Annual Amount Withheld from Employees	Annual Amount Contributed by the District	Total Amount Contributed
6/30/2011	$ 300,483	$ 1,002,750	$ 1,303,233
6/30/2012	$ 305,823	$ 1,133,804	$ 1,439,627
6/30/2013	$ 297,811	$ 1,116,087	$ 1,413,898

The Kentucky Local School District total payroll for the year was approximately $25,896,000. The payroll for employees covered under KTRS was approximately $18,979,000 and the payroll for employees covered under CERS was approximately $5,980,000 for the year ending June 30, 2013.

Deferred Compensation

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

NOTE I – CONTINGENCIES

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

NOTE I – 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.

NOTE J – LITIGATION

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

NOTE K – INSURANCE AND RELATED ACTIVITIES

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

NOTE L – RISK MANAGEMENT

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

NOTE L – RISK MANAGEMENT – CONTINUED

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

NOTE M – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the general fund had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance of $685,683.

NOTE N – COBRA

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

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year ending June 30, 2013:

From Fund	To Fund	Purpose		Amount
General	Special Revenue	Technology Match	$	90,501
Child Care Fund	General	Operations	$	100,000
Capital Outlay Fund	Debt Service Fund	Debt Service	$	422,468
Building Fund	Construction Fund	Construction Fund Reserve	$	108,972
Building Fund	Debt Service Fund	Debt Service	$	4,029,776

NOTE P – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2013 was $7,429,964. These payments were recorded as follows:

General Fund	$	7,104,007
Food Service Fund		247,022
Child Care Fund		78,935
	$	7,429,964

NOTE Q – POST-EMPLOYMENT HEALTH CARE BENEFITS

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

NOTE R – SUBSEQUENT EVENT

Management has evaluated subsequent events through November 11, 2013, the date which the financial statements were available to be issued.

Subsequent to June 30, 2013, the District settled a wrongful termination claim by a former employee by making a settlement payment of approximately $60,700. The amount has been recorded as a liability in the government-wide, governmental activities statement of net position and the general fund balance sheet as of June 30, 2013.

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

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Application of these standards may require restatement of portions of these financial statements in future years.

REQUIRED SUPPLEMENTARY INFORMATION

NELSON COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2013

	Budget			Variance Favorable
	Original	Final	Actual	(Unfavorable)
Revenues:				
Taxes:				
Property	$ 7,710,000	8,060,000	$ 7,933,592	$ (126,408)
Motor vehicle	1,050,000	1,150,000	1,154,044	4,044
Utilities	1,675,000	1,675,000	1,691,531	16,531
Distilled spirits tax	1,350,000	1,515,000	1,523,044	8,044
Tuition and fees	-	-	4,304	4,304
Earnings on investments	-	-	3,764	3,764
Other local revenues	80,000	145,000	202,052	57,052
Intergovernmental - intermediate	-	-	-	-
Intergovernmental - state	15,384,010	21,734,140	21,844,565	110,425
Total Revenues	27,249,010	34,279,140	34,356,896	77,756
Expenditures:				
Instruction	14,571,292	19,173,695	19,633,599	(459,904)
Support services:				-
Student	1,292,906	1,562,005	1,426,019	135,986
Instruction staff	1,297,231	1,707,961	1,662,422	45,539
District administration	951,023	1,087,190	961,274	125,916
School administrative	2,142,050	2,606,557	2,666,567	(60,010)
Business	847,741	1,436,833	1,506,300	(69,467)
Plant operation and maintenance	3,457,165	3,535,220	4,136,890	(601,670)
Student transportation	2,685,587	3,589,879	3,100,817	489,062
Community service activities		-	2,578	(2,578)
Total Expenditures	27,244,995	34,699,340	35,096,466	(397,126)
Excess (deficit) of revenues over expenditures	4,015	(420,200)	(739,570)	(319,370)
Other financing sources (uses)				
Proceeds from sale of fixed assets	-	10,000	44,388	34,388
Contingency	(1,704,015)	(1,300,000)	-	1,300,000
Operating transfers in	100,000	100,000	100,000	-
Operating transfers out	(400,000)	(100,000)	(90,501)	9,499
Total other financing sources (uses)	(2,004,015)	(1,290,000)	53,887	1,343,887
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	$ (2,000,000)	$ (1,710,200)	$ (685,683)	$ 1,024,517
Fund balance, July 1, 2012	2,000,000	1,710,200	3,158,014	
Fund balance, June 30, 2013	$ -	$ -	$ 2,472,331	

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2013

	Budget			Variance Favorable
	Original	Final	Actual	(Unfavorable)
Revenues:				
Tuition and fees	$ -	$ -	$ 30,150	$ 30,150
Earnings on investments	-	-	-	-
Other local revenues	49,840	456,000	178,386	(277,614)
Intergovernmental - state	1,152,500	1,046,396	1,178,083	131,687
Intergovernmental - indirect federal	1,840,000	2,045,479	2,073,605	28,126
Intergovernmental - direct federal	-	-	-	-
Total Revenues	3,042,340	3,547,875	3,460,224	(87,651)
Expenditures:				
Instruction	2,349,840	2,142,425	2,290,910	(148,485)
Support services:				
Student	65,000	237,199	264,960	(27,761)
Instruction staff	287,500	272,743	175,843	96,900
Business	50,000	450,000	247,568	202,432
Plant operation and maintenance	-	-	24,040	(24,040)
Student transportation	125,000	143,540	216,163	(72,623)
Community Service Activities	165,000	301,968	331,241	(29,273)
Total Expenditures	3,042,340	3,547,875	3,550,725	(2,850)
Excess (Deficit) Of Revenues Over Expenditures	-	-	(90,501)	(90,501)
Other Financing Sources (Uses)				
Operating transfers in	-	-	90,501	90,501
Operating transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	90,501	90,501
Excess (Deficit) Of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	$ -	$ -	$ -	$ -
Fund Balance, July 1, 2012	-	-	-	
Fund Balance, June 30, 2013	$ -	$ -	$ -	

See accompanying report of independent auditors.

SUPPLEMENTARY INFORMATION

NELSON COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2013

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

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2013

	Debt Service Fund	Capital Outlay Fund	Building Fund	Total
Revenues:				
From Local Sources:				
Taxes:				
Property	$ -	$ -	$ 3,210,000	$ 3,210,000
Intergovernmental - State	1,367,213	422,468	928,748	2,718,429
Total Revenues	1,367,213	422,468	4,138,748	5,928,429
Expenditures	-	-	-	-
Debt Service	5,819,457	-	-	5,819,457
Total Expenditures	5,819,457	-	-	5,819,457
Excess (deficit) of revenues over expenditures	(4,452,244)	422,468	4,138,748	108,972
Other financing sources (uses)				
Proceeds from sale of bonds	-	-	-	-
Bond discount	-	-	-	-
Payment to refund bond excrow agent	-	-	-	-
Operating transfers in	4,452,244	-	-	4,452,244
Operating transfers out	-	(422,468)	(4,138,748)	(4,561,216)
Total other financing sources (uses)	4,452,244	(422,468)	(4,138,748)	(108,972)
Change in fund balances	-	-	-	-
Fund balance, July 1, 2012	-	-	-	-
Fund balance, June 30, 2013	$ -	$ -	$ -	$ -

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION – AGENCY FUNDS

JUNE 30, 2013

	Bloomfield Middle School	New Haven Elementary School	Boston Elementary School	Old Ky Home Middle School	Cox's Creek Elementary School	Foster Heights Elementary School
Assets						
Cash and cash equivalents	$ 43,586	$ 33,209	$ 53,949	$ 92,537	$ 65,644	$ 95,635
Accounts receivable	-	-	-	-	-	-
Total assets	$ 43,586	$ 33,209	$ 53,949	$ 92,537	$ 65,644	$ 95,635
Liabilities						
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ -
Due to student groups	43,586	33,209	53,949	92,537	65,644	95,635
Total liabilities	$ 43,586	$ 33,209	$ 53,949	$ 92,537	$ 65,644	$ 95,635

	Nelson County High School	Bloomfield Elementary School	Thomas Nelson High School	Early Childhood Center	Total Agency Funds
Assets					
Cash and cash equivalents	$ 195,822	$ 71,260	$ 96,710	$ 4,719	$ 753,071
Accounts receivable	-	-	-	-	-
Total assets	$ 195,822	$ 71,260	96,710	4,719	753,071
Liabilities					
Accounts payable	$ -	$ -	-	-	-
Due to student groups	195,822	71,260	96,710	4,719	753,071
Total liabilities	$ 195,822	$ 71,260	$ 96,710	$ 4,719	$ 753,071

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balance July 1, 2012	Receipts	Disbursements	Cash Balance June 30, 2013	Due to Student Groups June 30, 2013
Bloomfield Middle School	$ 47,974	$ 170,543	$ 174,931	$ 43,586	$ 43,586
New Haven Elementary School	30,305	135,160	132,256	33,209	33,209
Boston Elementary School	58,561	58,021	62,633	53,949	53,949
Old Ky Home Middle School	83,532	131,228	122,223	92,537	92,537
Cox's Creek Elementary School	96,088	127,504	157,948	65,644	65,644
Foster Heights Elementary School	106,761	114,226	125,352	95,635	95,635
Nelson County High School	221,532	524,183	549,893	195,822	195,822
Bloomfield Elementary School	77,005	49,396	55,141	71,260	71,260
Thomas Nelson High School	3,556	270,128	176,974	96,710	96,710
Nelson Co. Early Learning Center	-	12,386	7,667	4,719	4,719
Totals	$ 725,314	$ 1,592,775	$ 1,565,018	$ 753,071	$ 753,071

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balance July 1, 2012	Receipts	Disbursements	Cash Balance June 30, 2013	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2013
Administration	$ 8,671	$ 16,891	$ 14,566	$ 10,996	$ -	$ 10,996
Athletic Vending	7,218	10,434	9,364	8,288	-	8,288
Banking for Students	151	-	-	151	-	151
Teachers' Lounge	2,792	8,405	9,679	1,518	-	1,518
Band	-	42,088	42,088	-	-	-
Field Trips	135	3,563	3,587	111	-	111
Credit Recover	-	-	-	-	-	-
Choir	-	1,979	1,979	-	-	-
Cardinal Collection	1,678	27	553	1,152	-	1,152
Science	-	-	-	-	-	-
Chicago trip	-	640	640	-	-	-
AP Tests	250	7,670	6,974	946	-	946
Drama	1,739	6,254	6,437	1,556	-	1,556
Guidance	1,815	1,995	1,702	2,108	-	2,108
Special Education	-	120	-	120	-	120
Prom	-	2,445		2,445	-	2,445
Tuition	6,964	6,011	12,975	-	-	-
Library	3,733	467	1,357	2,843	-	2,843
Nurse	1,025	1,438	532	1,931	-	1,931
NOW	-	-	-	-	-	-
Partnership	-	-	-	-	-	-
Textbook - Lost/Damaged	10,549	231	4,454	6,326	-	6,326
Use of Building	4,718	5,882	7,323	3,277	-	3,277
Yearbook	30,429	5,955	1,211	35,173	-	35,173
Milk Vending	13,547	6,828	18,067	2,308	-	2,308
Smoking Cessation	1,892	105	1,977	20	-	20
ROTC - Unit Funds	14,836	12,808	19,084	8,560	-	8,560
Textbook Fees	33,539	11,080	27,039	17,580	-	17,580
Spirit Store	-	-	-	-	-	-
Art	5,503	10,001	14,411	1,093	-	1,093
Reimbursement Acct.	-	420	420	-	-	-
Renaissance Class	481	3,505	3,955	31	-	31
PE Class	4,755	-	4,563	192	-	192
Graduate Class	3,823	870	-	4,693	-	4,693
Math Dept.	180	28	84	124	-	124
Humanities Class	821	45	866	-	-	-
Thomas Nelson H.S.	1,312	-	1,312	-	-	-
Transition Acct.	1,043	1,119	866	1,296	-	1,296
NSF	-	-	-	-	-	-
Heritage Club	250	-	-	250	-	250
Key Club	1,815	5,306	6,146	975	-	975
Book Club - Page	39	-	-	39	-	39
FFA	145	33,317	32,580	882	-	882
STLP	-	173	161	12	-	12
St. Council	8,000	3,000	7,000	4,000	-	4,000
Speech & Debate Team	-	-	-	-	-	-
Grade 9	-	-	-	-	-	-
Grade 10	-	-	-	-	-	-
Grade 11	1,802	12,919	14,721	-	-	-
Grade 12	70	933	1,003	-	-	-
National Honor Society	3,545	3,664	5,073	2,136	-	2,136
FFA - Corn Maze	-	6,988	6,432	556	-	556
Tech. Student Assoc.	1,196	-	1,196	-	-	-
Anatomy Class	-	2,783	2,315	468	-	468
Literary Magazine	82	30	35	77	-	77
Student Council	4,109	4,917	4,628	4,398	-	4,398
AP Biology	-	1,814	1,226	588	-	588

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balance July 1, 2012	Receipts	Disbursements	Cash Balance June 30, 2013	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2013
(Continued)						
Cardinal Theatre	-	-	-	-	-	-
FFA - Scholarship	1,200	1,095	1,530	765	-	765
Academic Team	459	-	-	459	-	459
CASA-SADD	26	-	-	26	-	26
FFA - Fruit Sales	-	5,545	5,545	-	-	-
Fellowship-Christian	1,163	602	964	801	-	801
FFA - Greenhouse	-	4,149	2,741	1,408	-	1,408
FFA - Floriculture	-	25	-	25	-	25
FFA - Region Lincoln	3,548	1,148	1,938	2,758	-	2,758
Girls' Golf	1,090	4,886	4,772	1,204	-	1,204
Girls' Soccer	35	124	99	60	-	60
Athletic	2,248	103,997	99,198	7,047	-	7,047
Boys' Basketball	967	14,955	11,209	4,713	-	4,713
Cardinal Concessions	-	14,381	14,381	-	-	-
Turf Account	286	18,880	19,000	166	-	166
Track	347	1,068	974	441	-	441
Caution Crew	1,348	650	1,562	436	-	436
Boys' Soccer	1,099	1,579	1,976	702	-	702
Pom Pom Squad	367	1,805	1,559	613	-	613
Archery	222	1,525	1,483	264	-	264
Cross Country	2,277	8,073	4,562	5,788	-	5,788
Tennis	817	1,120	1,343	594	-	594
Baseball	2	2,485		2,487	-	2,487
Girls' Softball	192	3,679	3,871	-	-	-
Volleyball	1,418	11,684	10,114	2,988	-	2,988
Boys' Golf	881	1,500	640	1,741	-	1,741
Swim Team	-	4,094	4,093	1	-	1
Cheerleaders	5,143	230	5,059	314	-	314
Bowling Team	-	-	-	-	-	-
Lady Cards' Basketball	2,271	36,027	36,748	1,550	-	1,550
Wrestling	625	3,571	3,780	416	-	416
Football Team	8,643	16,660	18,271	7,032	-	7,032
NC Elementary Boys	206	25,591	25,635	162	-	162
Girls Soccer Boosters	-	9,386	-	9,386	-	9,386
Project Graduation	-	5,500	-	5,500	-	5,500
Volleyball Boosters	-	-	-	-	-	-
FFA Alumi	-	6,756	-	6,756	-	6,756
Sub Total	221,532	557,918	583,628	195,822	-	195,822
Transfers	-	33,735	33,735	-	-	-
TOTAL	$ 221,532	$ 524,183	$ 549,893	$ 195,822	$ -	$ 195,822

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balance July 1, 2012	Receipts	Disbursements	Cash Balance June 30, 2013	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2013
General	$ 2,316	$ 9,652	$ 10,105	$ 1,863	$ -	$ 1,863
Tuition	360	5,583	658	5,285	-	5,285
Use of Building	-	1,358	1,141	217	-	217
Junior Chef	-	470	367	103	-	103
Guidance	-	598	216	382	-	382
Textbook Fees	-	13,279	267	13,012	-	13,012
Concessions	-	4,196	3,432	764	-	764
Athletics	-	27,899	25,726	2,173	-	2,173
Athletic Transportation	-	2,625	-	2,625	-	2,625
Staff Vending	-	773	438	335	-	335
Staff Flower Fund	-	185	113	72	-	72
Nurse	-	325	160	165	-	165
PEP Club	-	1,715	1,079	636	-	636
Ping Pong Club	-	360	297	63	-	63
Leadership Dynamics	-	1,398	1,388	10	-	10
STLP	-	77	-	77	-	77
Fellowship Christian	-	251	-	251	-	251
Key Club	-	4,728	2,477	2,251	-	2,251
Leader Council	-	6,236	4,261	1,975	-	1,975
Smoking	-	644	-	644	-	644
Beta Club	-	1,195	854	341	-	341
Corp Scholars	-	513	-	513	-	513
Football	850	5,994	4,217	2,627	-	2,627
Volleyball	-	9,267	2,972	6,295	-	6,295
Boys Basketball	-	23,450	19,566	3,884	-	3,884
Boys Soccer	-	12,841	10,015	2,826	-	2,826
Girls Soccer	-	9,300	2,932	6,368	-	6,368
Golf	-	8,206	3,868	4,338	-	4,338
Bowling	-	7,155	3,079	4,076	-	4,076
Cross Country	-	1,898	1,874	24	-	24
Track & Field	-	21	20	1	-	1
Baseball	-	20,585	12,885	7,700	-	7,700
Wrestling	-	420	136	284	-	284
Girls Basketball	-	16,813	12,167	4,646	-	4,646
Archery	-	523	411	112	-	112
Girls Softball	-	10,649	8,928	1,721	-	1,721
Cheerleading	-	6,934	5,849	1,085	-	1,085
Tennis	-	578	545	33	-	33
Dance Team	30	40	-	70	-	70
General Exposure	-	1,165	1,165	-	-	-
Band	-	6,969	5,984	985	-	985
Drama	-	3,288	2,878	410	-	410
General Store	-	4,231	2,140	2,091	-	2,091
FFA	-	16,823	14,342	2,481	-	2,481
FFA Alumni	-	-	-	-	-	-
AP Test	-	5,338	4,482	856	-	856
Library	-	3,204	2,045	1,159	-	1,159
Yearbook	-	6,952	1	6,951	-	6,951
Journalism	-	181	181	-	-	-
Art	-	1,343	-	1,343	-	1,343
Physical Ed	-	2,437	2,148	289	-	289
National Honor Society	-	200	125	75	-	75
Math Dept	-	59	-	59	-	59

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balance July 1, 2012	Receipts	Disbursements	Cash Balance June 30, 2013	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2013
(Continued)						
Humanities	-	161	-	161	-	161
Anatomy	-	950	947	3	-	3
Sub Total	3,556	272,035	178,881	96,710	-	96,710
Transfers	-	1,907	1,907	-	-	-
TOTAL	$ 3,556	$ 270,128	$ 176,974	$ 96,710	$ -	$ 96,710

See accompanying report of independent auditors.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor / Pass-through Grantor / Program Title	CFDA Number	Pass Through Grantor's Number	Federal Expenditures
U.S. Department Of Education			
Passed through the Kentucky Department of Education			
Title I Cluster			
Title I - Part A Cluster	84.010	3102	$ 88,097
		3102D	7,935
		3102M	1,934
		3103	622,074
TOTAL TITLE I CLUSTER			720,040
Special Education Cluster (IDEA)			
Special Education - Grants to State	84.027	3372	66,330
		3372P	3,479
		3373	817,302
			887,111
Special Education - Preschool Grants	84.173	3432	9,794
		3433	18,051
		3433P	315
			28,160
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			915,271
Vocational Education - Basic Grants to States	84.048	3482	11,395
		3482A	649
		3483	7,311
			19,355
Improving Teacher Quality - State Grants	84.367	4011	2,171
		4012	5,728
		4013	108,525
			116,424
TOTAL EDUCATION TECHNOLOGY STATE GRANTS CLUSTER			135,779
Title II Technology Grants	84.186	4252	4,290
Education Jobs Funding	84.410	4411	6,950
Race to the Top	84.416	4521	5,646
Twenty-First Century Community Learning Centers	84.287	5501	36,458
		5501B	700
		5501J	20,000
		5502	105,974
		5502B	112,500
		5502S	9,055
			284,687
Total U.S. Department Of Education			2,072,663

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

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor / Pass-through Grantor / Program Title	CFDA Number	Pass Through Grantor's Number	Federal Expenditures
(Continued)			
U.S. Department Of Agriculture			
Child Nutrition Cluster:			
Cash Assistance			
Passed through the Kentucky Department of Education			
School Breakfast Program	10.553	090451999	389,135
National School Lunch Program	10.555	090451999	1,081,038
Summer Food Service	10.559	090451999	29,260
Noncash Assistance (Commodities)			
National School Lunch Program	10.555	090451999	204,436
Total U.S. Department Of Agriculture			1,703,869
Total Federal Program Expenditures			$ 3,776,532

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2013

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – FOOD DISTRIBUTION

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

NOTE 3 – SUBRECIPIENTS

There were no subrecipients during the year ending June 30, 2013.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2013

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	__X__ yes	_____ no
• Significant deficiencies(s) identified that are not considered to be material weaknesses?	_____ yes	__X__ none reported
Noncompliance material to financial statements noted?	_____ yes	__X__ no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	_____ yes	__X__ no
• Significant deficiencies(s) identified that are not considered to be material weakness(es)?	_____ yes	__X__ none reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____ yes	__X__ no

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2013

Section I – Summary of Auditor's Results – Continued

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Child Nutrition Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program
	Other Programs
84.287	21st Century Community Learning Centers

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

Auditee qualified as low-risk auditee? ____ yes __X__ no

Section II – Financial Statement Findings

MATERIAL WEAKNESS

REFERENCE NUMBER 2013-01

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

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

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

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

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

Section II – Financial Statement Findings – Continued

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

Section III – Federal Award Findings and Questioned Costs

No findings or questioned costs to report.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2013

REFERENCE NUMBER 2012-01

Condition: See Finding 2013-01, which is a repeat from prior audit.

SMITH & COMPANY CPA's, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, III, and IV of the Independent Auditor's Contract, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Nelson County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Nelson County School District's basic financial statements and have issued our report thereon dated November 11, 2013.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-01 to be a material weakness.

Compliance and Other Matters

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

We also noted certain other matters that we reported to management of Nelson County School District in a separate letter dated November 11, 2013.

Nelson County School District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standard* and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, III, and IV of the Independent Auditor's Contract in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith & Company CPA's, PLLC

Bardstown, Kentucky
November 11, 2013

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

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

Report on Compliance for Each Major Federal Program

We have audited the Nelson County School District's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The Nelson County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Nelson County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, III, and IV of the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Nelson County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of Nelson County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Nelson County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Nelson County School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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Nelson County School District
Bardstown, Kentucky

In planning and performing our audit of the financial statements of Nelson County School District for the year ended June 30, 2013, 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 11, 2013 contains our report on the District's internal control structure. This letter does not affect our report dated November 11, 2013 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,

Smith & Company CPA's, PLLC

Bardstown, Kentucky
November 11, 2013

NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2013

CURRENT YEAR COMMENTS

School Activity Funds – Required Procedures

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

Conditions:	NH	TNHS	BES	BMS	NCHS	OKHMS
Missing fundraiser worksheets						√
Missing multiple receipt forms				√	√	
Inventory control sheets not completed or incomplete	√			√		
Sales tax paid on transaction		√				
Purchase order not completed / approved			√			
Receipts were not deposited timely						√

Legend:
NH – New Haven School
TNHS – Thomas Nelson High School
BES – Bloomfield Elementary School
BMS – Bloomfield Middle School
NCHS – Nelson County High School
OKHMS – Old Kentucky Home Middle School

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

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

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

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

NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2013

STATUS OF PRIOR YEAR FINDINGS

The chart below summarizes conditions we noted during our audit for the year ending June 30, 2012.

Conditions:	BES	BMS	BS	OKHMS
Missing fundraiser worksheets			√	√
Missing multiple receipt forms		√		
Inventory control sheets not completed			√	√
Sales tax paid on transaction	√			
Purchase orders not completed / approved		√		
Bank reconciliation not approved			√	

Legend:
BES – Bloomfield Elementary School
BMS – Bloomfield Middle School
BS – Boston School
OKHMS – Old Kentucky Home Middle School

Current Status: The principals and bookkeepers for the above schools have made significant progress toward eliminating the above conditions. Also, all bookkeepers attended a "Red Book" training course during the year ending June 30, 2013.

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