

NELSON COUNTY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2012

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

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 Nelson County School District (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Nelson County School District's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2012, and the respective changes in financial position and, where applicable, cash flows as of and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 39 through 40 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Nelson County School District's basic financial statements. The additional information shown on pages 41 through 47 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 48 through 49 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 of Nelson County School District. The combining and individual nonmajor fund financial statements and 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Bardstown, Kentucky
November 12, 2012

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2012

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, 2012. 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 \$4.553 million.
- Issued \$8.670 million in bonds during the current fiscal year to partially refund the 2003 School Building Revenue Bonds.
- Construction in process increased approximately \$8.384 million primarily due to ongoing construction related to Thomas Nelson High School. Approximately \$5.210 million was reclassified for construction projects completed during the current fiscal year.
- Local tax levied at the four percent rate increase of 63.7 cents per \$100 for real estate and tangible property. No change in the motor vehicle tax at 58.8 cents per \$100 of assessed property.
- From fiscal year 2011 to 2012, total revenues from governmental activities decreased approximately \$2.33 million primarily due to decreases in federal funding and significant declines in yields on investments.
- The district adopted a budget in May 2012 for the upcoming year with \$2.672 million in contingency (6.7% of total budgeted expenditures).
- The composition of the Board of Education remained the same as the prior year.

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 Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the District accompanied by a total column.

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2012

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 Assets. The Statement of Activities presents changes in net assets. 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 10 through 11 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets 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 \$34.4 million as of June 30, 2012.

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

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

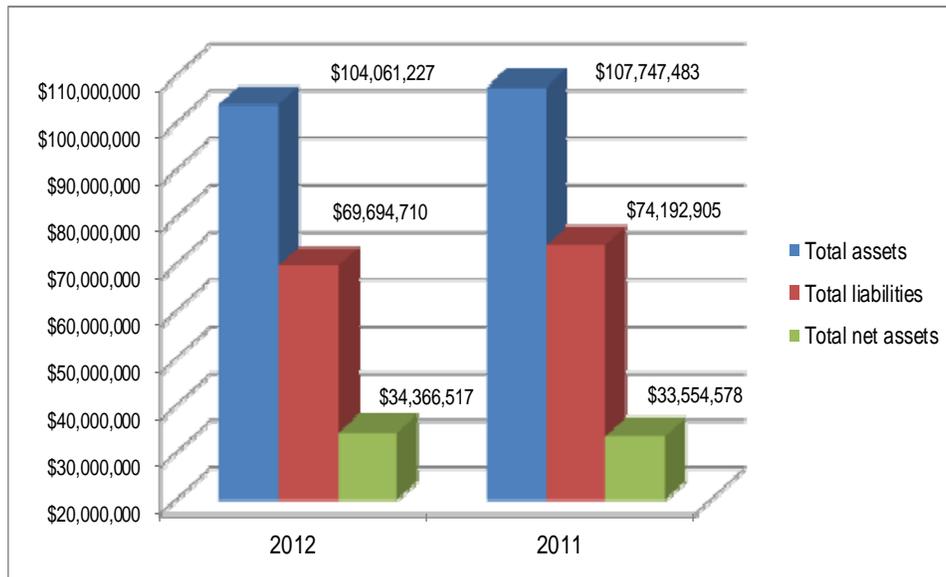
**NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2012**

Net Assets

The 2012 Government-wide net assets compared to 2011 are as follows:

**Net Assets
(Table 1)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 4,741,909	\$ 18,246,301	\$ 997,703	\$ 1,101,700	\$ 5,739,612	\$ 19,348,001
Capital assets	97,348,529	87,761,169	973,086	638,313	98,321,615	88,399,482
Total assets	102,090,438	106,007,470	1,970,789	1,740,013	104,061,227	107,747,483
Long-term debt	65,312,680	68,380,310	-	-	65,312,680	68,380,310
Other liabilities	4,382,030	5,812,595	-	-	4,382,030	5,812,595
Total liabilities	69,694,710	74,192,905	-	-	69,694,710	74,192,905
Net assets:						
Invested in capital assets net of related debt	29,675,875	16,899,299	973,086	638,313	30,648,961	17,537,612
Restricted	724,535	12,540,496	-	-	724,535	12,540,496
Unrestricted	1,995,318	2,374,770	997,703	1,101,700	2,993,021	3,476,470
Total net assets	\$ 32,395,728	\$ 31,814,565	\$ 1,970,789	\$ 1,740,013	\$ 34,366,517	\$ 33,554,578



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

- Capital assets increased approximately \$9.922 million due to constructions projects that were placed in service during fiscal year 2012 for the following projects: Nelson County High Athletics Projects, improvements and renovations to Foster Heights Elementary School, and Nelson County Early Childhood Center, as well as the ongoing project for Thomas Nelson High School that was nearly complete as of June 30, 2012.
- Series 2011R refunding bonds issued (\$8.670 million par) that refunded a portion of the 2003 School Building Revenue Bonds as well as regularly scheduled debt principal payments that reduced bonds payable approximately \$2.249 million.

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2012

Change in Net Assets

The following Table 2 presents the summary of changes in net assets for the fiscal years ending June 30, 2012 and 2011.

Changes in Net Assets
(Table 2)

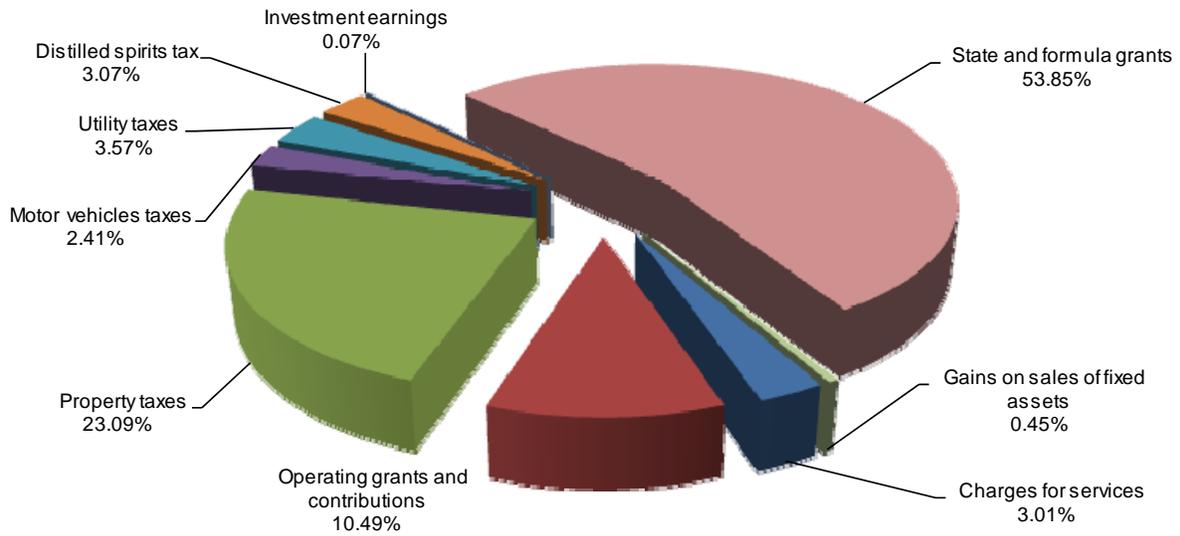
	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program Revenues						
Charges for services	\$ 111,479	\$ 142,679	\$ 1,272,538	\$ 1,446,867	\$ 1,384,017	\$ 1,589,546
Operating grants and contributions	2,916,460	5,502,660	1,914,522	1,606,041	4,830,982	7,108,701
General Revenues						
Property taxes	10,627,950	10,251,707	-	-	10,627,950	10,251,707
Motor vehicle taxes	1,107,414	1,056,078	-	-	1,107,414	1,056,078
Utility taxes	1,644,761	1,617,674	-	-	1,644,761	1,617,674
Distilled spirits tax	1,412,595	1,321,944	-	-	1,412,595	1,321,944
Investment earnings	32,188	723,202	-	12,149	32,188	735,351
State and formula grants	24,792,053	24,370,918	-	-	24,792,053	24,370,918
Miscellaneous	205,097	195,162	-	-	205,097	195,162
Total revenues	42,849,997	45,182,024	3,187,060	3,065,057	46,037,057	48,247,081
EXPENSES						
Program Activities						
Instruction	23,565,164	24,566,323	-	-	23,565,164	24,566,323
Student support	1,783,745	1,756,533	-	-	1,783,745	1,756,533
Instruction staff support	1,900,035	2,385,690	-	-	1,900,035	2,385,690
District administration support	1,174,080	1,183,397	-	-	1,174,080	1,183,397
School administrative support	2,564,349	2,457,675	-	-	2,564,349	2,457,675
Business support	1,197,787	1,145,351	-	-	1,197,787	1,145,351
Plant operation and maintenance	4,299,168	3,828,768	-	-	4,299,168	3,828,768
Student transportation	3,632,870	3,511,663	-	-	3,632,870	3,511,663
Community service activities	331,959	347,269	-	-	331,959	347,269
Interest on long-term debt	1,613,542	1,417,669	-	-	1,613,542	1,417,669
Business-type Activities						
Food service	-	-	2,692,709	2,255,285	2,692,709	2,255,285
Child care	-	-	469,710	605,225	469,710	605,225
Total expenses	42,062,699	42,600,338	3,162,419	2,860,510	45,225,118	45,460,848
Transfers	(206,135)	-	206,135	-	-	-
CHANGE IN NET ASSETS	\$ 581,163	\$ 2,581,686	\$ 230,776	\$ 204,547	\$ 811,939	\$ 2,786,233

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

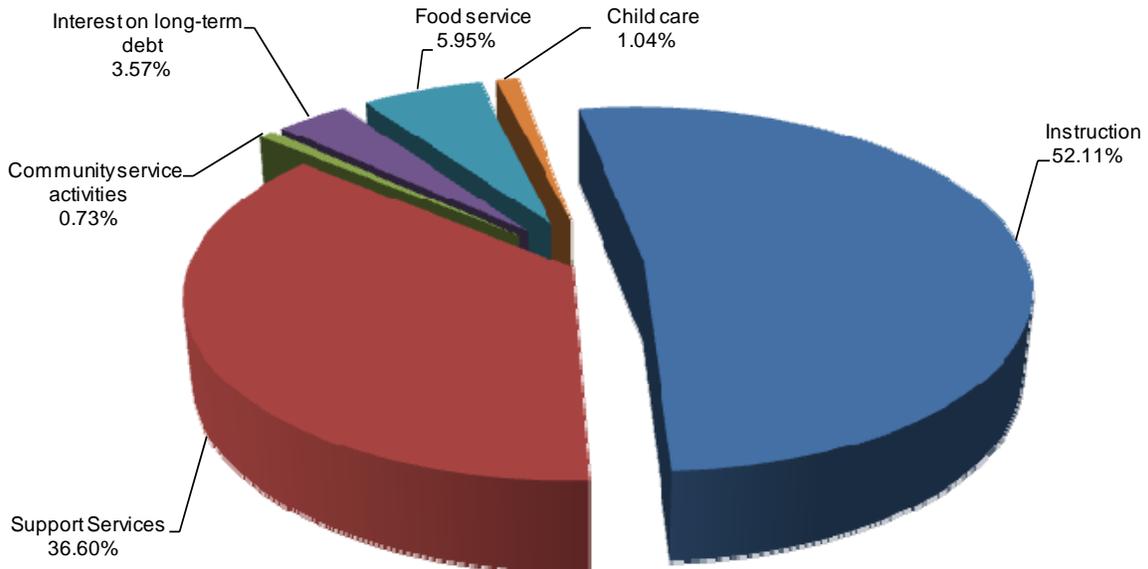
- Federal grants revenues decreased approximately \$2.02 million due to reductions in federal grants in part related to American Recovery and Reinvestment Act funds received in the prior year.
- Investment earnings decreased approximately \$703,000 due to the yield for deposits at the District’s financial institution were below 1%.

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2012

The following provides a breakdown of total primary government revenues for the year ending June 30, 2012:



The following provides a breakdown of total primary government expenses for the year ending June 30, 2012:



NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2012

Capital Assets

At the end of fiscal year 2012, the School District had approximately \$97.9 million invested in land, building and improvements, vehicles, equipment, and construction in process. Table 3 shows fiscal year 2012 and 2011 balances.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,921,133	\$ 2,700,543	\$ -	\$ -	\$ 2,921,133	\$ 2,700,543
Buildings and improvements	65,814,598	60,178,398	-	-	65,814,598	60,178,398
Technology Equipment	325,748	401,002	8,174	7,047	333,922	408,049
Vehicles	1,870,922	1,633,439	-	-	1,870,922	1,633,439
General equipment	723,412	335,426	964,912	631,266	1,688,324	966,692
Total	71,655,813	65,248,808	973,086	638,313	72,628,899	65,887,121
Construction in process	25,266,971	22,092,333	-	-	25,266,971	22,092,333
Total	\$ 96,922,784	\$ 87,341,141	\$ 973,086	\$ 638,313	\$ 97,895,870	\$ 87,979,454

The following were major additions and capital assets placed in service during fiscal year 2012:

Construction in process related to Thomas Nelson High School	\$ <u>8,384,232</u>
Nelson County High School Athletics Improvements	\$ <u>2,160,135</u>
Nelson County Early Childhood Center	\$ <u>2,704,231</u>
Foster Heights Renovations	\$ <u>2,980,473</u>
Six school buses	\$ <u>514,276</u>

Debt

At June 30, 2012, the School District had \$69,024,808 in bonds outstanding. Of this amount, \$8,943,416 is to be paid by the Kentucky School Facility Construction Commission. A total of \$3,012,850 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 \$27,309,010 with actual amounts of \$33,807,685. Budgeted expenditures of \$26,897,103 compare with actual expenditures of \$34,060,835. The most significant fluctuation is for on-behalf payments of \$6,117,351.

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2012

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 20-38 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 2011-2012 with approximately \$2.7 million in contingency (6.7%). The District has adopted a budget for 2012-2013 with an approximate 6.6% 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 ASSETS

JUNE 30, 2012

Assets	Governmental Activities	Business-Type Activities	Total
<u>Current Assets</u>			
Cash and cash equivalents	\$ 3,624,881	\$ 928,226	\$ 4,553,107
Inventory	-	69,477	69,477
Accounts receivable:			
Taxes - current	125,570	-	125,570
Taxes - delinquent	19,089	-	19,089
Other	26,467	-	26,467
Intergovernmental - State	251,751	-	251,751
Intergovernmental - Indirect Federal	694,151	-	694,151
Investments	-	-	-
Total current assets	<u>4,741,909</u>	<u>997,703</u>	<u>5,739,612</u>
<u>Capital Assets, Net</u>			
Capital assets, net	96,922,784	973,086	97,895,870
<u>Other Assets</u>			
Bond issue costs, net of accumulated amortization of \$168,130	<u>425,745</u>	<u>-</u>	<u>425,745</u>
Total noncurrent assets	<u>97,348,529</u>	<u>973,086</u>	<u>98,321,615</u>
Total assets	<u>\$ 102,090,438</u>	<u>\$ 1,970,789</u>	<u>\$ 104,061,227</u>
Liabilities & Net Assets			
<u>Current Liabilities</u>			
Accounts payable	\$ 763,307	\$ -	\$ 763,307
Accrued salaries and benefits payable	29,190	-	29,190
Deferred revenue	66,863	-	66,863
Interest payable	346,602	-	346,602
Current portion of bond obligations	3,012,850	-	3,012,850
Current portion of accrued sick leave	163,218	-	163,218
Total Current Liabilities	<u>4,382,030</u>	<u>-</u>	<u>4,382,030</u>
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	66,011,958	-	66,011,958
Less: bond discount	(779,639)	-	(779,639)
Less: deferred amount on refunding	(572,515)	-	(572,515)
Noncurrent portion of accrued sick leave	652,876	-	652,876
Total Noncurrent Liabilities	<u>65,312,680</u>	<u>-</u>	<u>65,312,680</u>
Total Liabilities	<u>69,694,710</u>	<u>-</u>	<u>69,694,710</u>
<u>Net Assets</u>			
Invested In capital assets, net of related debt	29,675,875	973,086	30,648,961
Restricted for:			
Construction	724,535	-	724,535
Unrestricted	1,995,318	997,703	2,993,021
Total Net Assets	<u>\$ 32,395,728</u>	<u>\$ 1,970,789</u>	<u>\$ 34,366,517</u>

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

NELSON COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2012

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Cash and cash equivalents	\$ 2,860,979	\$ -	\$ 1,341,046	\$ -	\$ 4,202,025
Accounts receivable	422,878	694,151	-	-	1,117,029
Investments	-	-	-	-	-
Total assets	<u>\$ 3,283,857</u>	<u>\$ 694,151</u>	<u>\$ 1,341,046</u>	<u>\$ -</u>	<u>\$ 5,319,054</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 96,653	\$ 50,143	\$ 616,511	\$ -	\$ 763,307
Cash overdraft	-	577,145	-	-	577,145
Accrued liabilities	29,190	-	-	-	29,190
Deferred revenue	-	66,863	-	-	66,863
Total liabilities	<u>125,843</u>	<u>694,151</u>	<u>616,511</u>	<u>-</u>	<u>1,436,505</u>
Fund Balances:					
Restricted	-	-	724,535	-	724,535
Committed	1,270,756	-	-	-	1,270,756
Assigned	65,168	-	-	-	65,168
Unrestricted	1,822,090	-	-	-	1,822,090
Total Fund Balances	<u>3,158,014</u>	<u>-</u>	<u>724,535</u>	<u>-</u>	<u>3,882,549</u>
Total liabilities and fund balances	<u>\$ 3,283,857</u>	<u>\$ 694,151</u>	<u>\$ 1,341,046</u>	<u>\$ -</u>	<u>\$ 5,319,054</u>

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

NELSON COUNTY SCHOOL DISTRICT

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

JUNE 30, 2012

Total fund balance per fund financial statements	\$ 3,882,549
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.	96,922,784
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.	425,745
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	(69,024,808)
Bond discount	779,639
Deferred amount on refunding	572,515
Interest payable	(346,602)
Accrued sick leave	<u>(816,094)</u>
Net assets for governmental activities	<u>\$ 32,395,728</u>

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Special</u>	<u>Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes:					
Property	\$ 7,477,950	\$ -	\$ -	\$ 3,150,000	\$ 10,627,950
Motor vehicle	1,107,414	-	-	-	1,107,414
Utilities	1,644,761	-	-	-	1,644,761
Distilled spirits tax	1,412,595	-	-	-	1,412,595
Tuition and fees	3,100	18,680	-	-	21,780
Earnings on investments	5,203	1	26,984	-	32,188
Other local revenues	150,521	194,009	47,730	-	392,260
Intergovernmental - intermediate	-	-	-	-	-
Intergovernmental - state	22,006,141	1,373,303	135,833	1,333,340	24,848,617
Intergovernmental - indirect federal	-	2,843,952	-	-	2,843,952
Intergovernmental - direct federal	-	-	-	-	-
Total revenues	<u>33,807,685</u>	<u>4,429,945</u>	<u>210,547</u>	<u>4,483,340</u>	<u>42,931,517</u>
Expenditures:					
Instruction	18,875,634	2,979,707	-	-	21,855,341
Support services:					
Student	1,529,791	207,618	-	-	1,737,409
Instruction staff	1,497,732	352,939	-	-	1,850,671
District administration	1,117,802	-	-	-	1,117,802
School administrative	2,550,721	-	-	-	2,550,721
Business	997,357	187,275	-	-	1,184,632
Plant operation and maintenance	4,012,546	70,727	-	-	4,083,273
Student transportation	3,480,831	376,058	-	-	3,856,889
Facilities acquisition and maintenance	-	-	11,769,301	-	11,769,301
Community service activities	(1,579)	333,536	-	-	331,957
Debt service	-	-	-	4,434,412	4,434,412
Total Expenditures	<u>34,060,835</u>	<u>4,507,860</u>	<u>11,769,301</u>	<u>4,434,412</u>	<u>54,772,408</u>
Excess (deficit) of revenues over expenditures	<u>(253,150)</u>	<u>(77,915)</u>	<u>(11,558,754)</u>	<u>48,928</u>	<u>(11,840,891)</u>
Other financing sources (uses)					
Proceeds from sale of bonds	-	-	-	8,670,000	8,670,000
Bond discount	-	-	-	(63,746)	(63,746)
Payment to refund bond escrow agent	-	-	-	(8,606,254)	(8,606,254)
Proceeds from sale of fixed assets	40,631	-	-	-	40,631
Operating transfers in	100,000	77,915	-	-	177,915
Operating transfers out	(77,915)	-	(257,207)	(48,928)	(384,050)
Total other financing sources (uses)	<u>62,716</u>	<u>77,915</u>	<u>(257,207)</u>	<u>(48,928)</u>	<u>(165,504)</u>
Net change in fund balances	(190,434)	-	(11,815,961)	-	(12,006,395)
Fund balance, July 1, 2011	<u>3,348,448</u>	<u>-</u>	<u>12,540,496</u>	<u>-</u>	<u>15,888,944</u>
Fund balance, June 30, 2012	<u>\$ 3,158,014</u>	<u>\$ -</u>	<u>\$ 724,535</u>	<u>\$ -</u>	<u>\$ 3,882,549</u>

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

NELSON COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2012

Net change in total fund balances per fund financial statements	\$ (12,006,395)
Amounts reported for governmental activities in the statement of activities are different because of the following:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	9,703,791
Bond proceeds are reported as revenues in this fund statement because it creates current financial resources, but they are separated and shown as long-term debt on the statement of net assets.	(8,539,814)
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 assets and interest expense on the statement of activities. The difference is the amount of principal payment made for the year.	11,499,951
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.	(122,147)
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.	<u>45,777</u>
Change in net assets of governmental activities	<u><u>\$ 581,163</u></u>

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2012

Assets	Food Service Fund	Other Enterprise Funds	Total
<u>Current Assets</u>			
Cash and cash equivalents	\$ 631,505	\$ 296,721	\$ 928,226
Inventory	69,477	-	69,477
Accounts receivable	-	-	-
Due from other funds	-	-	-
Investments	-	-	-
Total current assets	<u>700,982</u>	<u>296,721</u>	<u>997,703</u>
<u>Capital Assets, Net</u>			
Capital assets, net	<u>973,086</u>	<u>-</u>	<u>973,086</u>
Total assets	<u><u>\$ 1,674,068</u></u>	<u><u>\$ 296,721</u></u>	<u><u>\$ 1,970,789</u></u>
Liabilities & Net Assets			
<u>Current Liabilities</u>			
Accounts payable	\$ -	\$ -	\$ -
Accrued expenses	-	-	-
Due to other funds	-	-	-
Total current liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net Assets</u>			
Invested In capital assets, net of related debt	973,086	-	973,086
Unrestricted	<u>700,982</u>	<u>296,721</u>	<u>997,703</u>
Total net assets	<u><u>\$ 1,674,068</u></u>	<u><u>\$ 296,721</u></u>	<u><u>\$ 1,970,789</u></u>

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

NELSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2012

	Food Service Fund	Other Enterprise Fund	Total
Operating revenues:			
Lunchroom sales	\$ 852,701	\$ -	\$ 852,701
Tuition and fees	-	416,853	416,853
Other operating revenues	2,984	-	2,984
Total operating revenues	855,685	416,853	1,272,538
Operating expenses:			
Salaries and wages	1,414,620	439,317	1,853,937
Materials and supplies	1,132,936	22,256	1,155,192
Depreciation	87,911	-	87,911
Other operating expenses	57,242	8,137	65,379
Total operating expenses	2,692,709	469,710	3,162,419
Income (loss) from operations	(1,837,024)	(52,857)	(1,889,881)
Non-operating revenues (expenses):			
Federal grants	1,486,331	-	1,486,331
State grants	227,520	74,594	302,114
Donated commodities	126,077	-	126,077
Fund transfers	306,135	(100,000)	206,135
Sale of equipment	-	-	-
Interest income	-	-	-
Total non-operating revenues (expenses)	2,146,063	(25,406)	2,120,657
Change in net assets	309,039	(78,263)	230,776
Net assets, July 1, 2011	1,365,029	374,984	1,740,013
Net assets, June 30, 2012	\$ 1,674,068	\$ 296,721	\$ 1,970,789

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, 2012

	Food Service Fund	Child Care Fund	Total
Cash Flows From Operating Activities			
Cash received from:			
Lunchroom sales	\$ 852,701	\$ -	\$ 852,701
Tuition and fees	-	416,853	416,853
Other activities	2,984	-	2,984
Cash paid to / for:			
Employees	(1,187,100)	(364,723)	(1,551,823)
Supplies	(910,889)	(22,256)	(933,145)
Other activities	(57,242)	(8,137)	(65,379)
	<u>(1,299,546)</u>	<u>21,737</u>	<u>(1,277,809)</u>
Net cash provided by (used in) operating activities			
Cash Flows From Non-Capital Financing Activities			
Federal grants	1,486,331	-	1,486,331
Transfers from (to) other funds	306,135	(100,000)	206,135
	<u>1,792,466</u>	<u>(100,000)</u>	<u>1,692,466</u>
Net cash provided by (used in) non-capital financing activities			
Cash Flows From Capital & Related Financing Activities			
Purchases of capital assets	(422,684)	-	(422,684)
	<u>70,236</u>	<u>(78,263)</u>	<u>(8,027)</u>
Net increase (decrease) in cash and cash equivalents			
	<u>561,269</u>	<u>374,984</u>	<u>936,253</u>
Balances, beginning of year			
	<u>\$ 631,505</u>	<u>\$ 296,721</u>	<u>\$ 928,226</u>
Balances, end of year			
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income	\$ (1,837,024)	\$ (52,857)	\$ (1,889,881)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	87,911	-	87,911
Donated commodities	126,077	-	126,077
State on-behalf payments	227,520	74,594	302,114
Change in assets and liabilities:			
Inventory	95,970	-	95,970
	<u>(1,299,546)</u>	<u>21,737</u>	<u>(1,277,809)</u>
Net cash provided by (used in) operating activities			

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

NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Agency Funds
Assets	
Cash and cash equivalents	\$ 725,304
Accounts receivable	-
	<hr/>
Total Assets	\$ 725,304
	<hr/> <hr/>
Liabilities	
Accounts payable	\$ -
Due to student groups	725,304
	<hr/>
Total Liabilities	725,304
	<hr/> <hr/>
Net Assets Held In Trust	\$ -
	<hr/> <hr/>

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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 assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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 assets 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 Assets. The Statement of Activities presents changes in net assets. 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 Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

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

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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 48 – 49. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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

Basis of Accounting

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

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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 assets 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, 2012, to finance the General Fund operations were \$0.637 per \$100 valuation for real property, \$0.637 per \$100 valuation for business personal property and \$0.548 per \$100 valuation for motor vehicles.

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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 assets 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 assets and in the respective funds.

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

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

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

Interfund Balances

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

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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, 2012 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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 Assets

Net assets represent the difference between assets and liabilities. Net assets 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 assets are 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.

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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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 \$4,553,107. \$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	\$	3,624,881
Proprietary Funds		<u>928,226</u>
	\$	<u>4,553,107</u>

In addition to the cash and cash equivalents listed above, the district has agency funds that are not included in the governmental funds or the proprietary fund balances. The agency funds (school activity funds) at year end were \$725,304.

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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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, 2012, the District did not hold any investments in excess of this limit.

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

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

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE E – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2012</u>
Non-depreciable assets:				
Land	\$ 2,700,543	\$ 226,375	\$ 5,785	\$ 2,921,133
Construction in process	22,092,333	8,384,232	5,209,594	25,266,971
Depreciable assets:				
Buildings and improvements	85,788,564	8,174,644	3,178,619	90,784,589
Technology equipment	2,135,091	69,209	-	2,204,300
Vehicles	5,528,969	536,643	361,832	5,703,780
General equipment	1,421,182	447,818	13,100	1,855,900
Totals at historical cost	<u>119,666,682</u>	<u>17,838,921</u>	<u>8,768,930</u>	<u>128,736,673</u>
Accumulated depreciation				
Buildings and improvements	25,610,166	2,197,844	2,838,019	24,969,991
Technology equipment	1,734,090	144,462	-	1,878,552
Vehicles	3,895,530	299,160	361,832	3,832,858
General equipment	1,085,755	57,716	10,983	1,132,488
Total accumulated depreciation	<u>32,325,541</u>	<u>2,699,182</u>	<u>3,210,834</u>	<u>31,813,889</u>
Governmental activities capital assets, net	<u>\$ 87,341,141</u>	<u>\$ 15,139,739</u>	<u>\$ 5,558,096</u>	<u>\$ 96,922,784</u>

Depreciation was charged to governmental functions as follows:

Instruction	\$ 1,972,584
District administration	56,279
School administration	13,628
Business support	13,156
Plant	353,276
Transportation	290,259
Total	<u>\$ 2,699,182</u>

Construction in process totaling \$25,266,971 is related to the ongoing construction project for Thomas Nelson High School as of June 30, 2012.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE E – CAPITAL ASSETS – CONTINUED

Business-Type Activities	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Technology Equipment	\$ 63,950	\$ 3,282	\$ -	\$ 67,232
General equipment	1,538,060	419,402	-	1,957,462
Totals at historical cost	<u>1,602,010</u>	<u>422,684</u>	<u>-</u>	<u>2,024,694</u>
Accumulated depreciation				
Technology equipment	56,903	2,155	-	59,058
General equipment	906,794	85,756	-	992,550
Total accumulated depreciation	<u>963,697</u>	<u>87,911</u>	<u>-</u>	<u>1,051,608</u>
Business-type activities capital assets, net	<u>\$ 638,313</u>	<u>\$ 334,773</u>	<u>\$ -</u>	<u>\$ 973,086</u>

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	\$ 117,422	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%
2011	780,000	1.4% - 4.5%
2011 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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

On October 1, 2011, the Board issued \$8,670,000 of 2011R School Building Revenue Refunding Bonds refunding the 2003 School Building Revenue Bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$612,458. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2023 using the straight-line method which approximates the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 10 years by \$886,847 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$780,069.

Although defeased, the funded debt will not be actually retired until the call dates have come due or until maturity if they are not callable issues. As of June 30, 2012, the outstanding principal amount of indebtedness that is considered to be extinguished under “in substance defeasance” and therefore excluded from the District-wide financial statements was \$8,025,000.

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, 2012 for debt service (principal and interest) are as follows:

	Nelson County School District		Kentucky School Facility Construction Commission		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 2,447,710	\$ 1,982,770	\$ 565,140	\$ 301,380	\$ 3,012,850	\$ 2,284,150
2014	2,518,250	1,911,286	578,708	284,261	3,096,958	2,195,547
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 - 2022	15,096,821	7,067,237	3,103,179	879,527	18,200,000	7,946,764
2023 - 2027	18,078,695	4,382,873	2,291,305	369,010	20,370,000	4,751,883
2028 - 2032	13,859,014	953,795	570,986	55,966	14,430,000	1,009,761
	<u>\$ 60,081,392</u>	<u>\$ 21,514,575</u>	<u>\$ 8,943,416</u>	<u>\$ 2,626,779</u>	<u>\$ 69,024,808</u>	<u>\$ 24,141,354</u>

Accumulated Unpaid Sick Leave Benefits

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

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, 2012, was as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Amounts due in one year</u>
Revenue bonds payable	\$ 71,273,505	\$ 8,670,000	\$ 10,918,697	\$ 69,024,808	\$ 3,012,850
Accrued sick leave	983,155	223,837	390,898	816,094	163,218
	<u>\$ 72,256,660</u>	<u>\$ 8,893,837</u>	<u>\$ 11,309,595</u>	<u>\$ 69,840,902</u>	<u>\$ 3,176,068</u>

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

NOTE G – FUND BALANCES

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2012, the District had \$724,535 as restricted for capital projects in the Construction Fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had \$1,270,756 in committed funds at June 30, 2012 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. The amount assigned related to encumbrances at June 30, 2012, was \$65,168. 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.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE G – FUND BALANCES – CONTINUED

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.

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 10.355% of creditable compensation. Participating employees hired on or after July 1, 2008 contribute 10.855% of creditable compensation. Matching contributions are made by the state. The federal program for any salaries paid by that program pays the matching contributions. The District contributed 13.605% of the employee's compensation paid by federal programs for the fiscal year ended June 30, 2012 for participating employees hired before July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions. The District contributed 14.105% of the employee's compensation paid by federal programs for the fiscal year ended June 30, 2012 for participating employees hired on or after July 1, 2008. The Board of Trustees of the Kentucky Retirement Systems determines the contribution rates.

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE H – RETIREMENT PLANS – CONTINUED

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, 2012 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
6/30/2010	\$ 1,964,924	\$ 180,196	\$ 2,145,120
6/30/2011	\$ 2,020,652	\$ 224,578	\$ 2,245,230
6/30/2012	\$ 2,021,884	\$ 230,147	\$ 2,252,031

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.

Participating employees hired before September 1, 2008 contribute 5.00% of creditable compensation. Participating employees hired on or after September 1, 2008, contribute 6.00% of creditable compensation. The District contributed 18.96% of creditable compensation during the fiscal year ended June 30, 2012. 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, 2012 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
6/30/2010	\$ 303,988	\$ 972,537	\$ 1,276,525
6/30/2011	\$ 300,483	\$ 1,002,750	\$ 1,303,233
6/30/2012	\$ 305,823	\$ 1,133,804	\$ 1,439,627

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE H – RETIREMENT PLANS – CONTINUED

The Kentucky Local School District total payroll for the year was approximately \$25,896,000. The payroll for employees covered under KTRS was approximately \$19,429,000 and the payroll for employees covered under CERS was approximately \$5,980,000 for the year ending June 30, 2012.

Deferred Compensation

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

NOTE I – CONTINGENCIES

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

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

NOTE J – LITIGATION

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE K – INSURANCE AND RELATED ACTIVITIES

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

NOTE L – RISK MANAGEMENT

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

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

NOTE M – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. There are also no funds having operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance.

NOTE N – COBRA

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year ending June 30, 2012:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Technology Match	\$ 77,915
Child Care Fund	General	Operations	\$ 100,000
Food Service Fund	Construction Fund	Food Service Equipment	\$ 116,550
Building Fund	Construction Fund	Construction Fund Reserve	\$ 48,928
Construction Fund	Food Service Fund	Food Service Fund	\$ 422,685

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, 2012 was \$6,419,465. These payments were recorded as follows:

General Fund	\$ 6,117,351
Food Service Fund	227,520
Child Care Fund	<u>74,594</u>
	\$ <u>6,419,465</u>

NOTE Q – COMMITMENTS

As of June 30, 2012, the District had outstanding commitments for construction approximating \$181,000.

NOTE R – SUBSEQUENT EVENT

Subsequent to June 30, 2012, the Thomas Nelson High School was completed and placed into service for the 2012 – 2013 school year.

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, 2012

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes:				
Property	\$ 6,620,000	7,535,000	\$ 7,477,950	\$ (57,050)
Motor vehicle	1,050,000	1,050,000	1,107,414	57,414
Utilities	1,600,000	1,625,000	1,644,761	19,761
Distilled spirits tax	1,335,000	1,350,000	1,412,595	62,595
Tuition and fees	-	-	3,100	3,100
Earnings on investments	225,000	25,000	5,203	(19,797)
Other local revenues	90,000	90,000	150,521	60,521
Intergovernmental - state	15,152,452	15,634,010	22,006,141	6,372,131
Total Revenues	26,072,452	27,309,010	33,807,685	6,498,675
Expenditures:				
Instruction	13,183,533	14,268,262	18,875,634	(4,607,372)
Support services:				
Student	1,211,180	1,280,348	1,529,791	(249,443)
Instruction staff	1,476,625	1,285,225	1,497,732	(212,507)
District administration	923,136	946,633	1,117,802	(171,169)
School administrative	1,997,529	2,086,607	2,550,721	(464,114)
Business	843,424	865,135	997,357	(132,222)
Plant operation and maintenance	3,484,279	3,376,789	4,012,546	(635,757)
Student transportation	2,892,005	2,788,104	3,480,831	(692,727)
Community service activities	-	-	(1,579)	1,579
Total Expenditures	26,011,711	26,897,103	34,060,835	(7,163,732)
Excess (deficit) of revenues over expenditures	60,741	411,907	(253,150)	(665,057)
Other financing sources (uses)				
Proceeds from sale of fixed assets	-	-	40,631	40,631
Contingency	(1,400,000)	(1,961,907)	-	1,961,907
Operating transfers in	-	100,000	100,000	-
Operating transfers out	(372,000)	(500,000)	(77,915)	422,085
Total other financing sources (uses)	(1,772,000)	(2,361,907)	62,716	2,424,623
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	\$ (1,711,259)	\$ (1,950,000)	\$ (190,434)	\$ 1,759,566
Fund balance, July 1, 2011	1,711,259	1,950,000	3,348,448	
Fund balance, June 30, 2011	\$ -	\$ -	\$ 3,158,014	

NOTE – DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Both inflows and outflows are equally different in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds by the amount of on-behalf payments of \$6,117,351.

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, 2012

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Tuition and fees	\$ -	\$ -	\$ 18,680	\$ 18,680
Earnings on investments	-	-	1	1
Other local revenues	32,000	32,000	194,009	162,009
Intergovernmental - state	1,114,350	1,163,250	1,373,303	210,053
Intergovernmental - indirect federal	2,903,875	1,962,443	2,843,952	881,509
Intergovernmental - direct federal	-	-	-	-
Total Revenues	<u>4,050,225</u>	<u>3,157,693</u>	<u>4,429,945</u>	<u>1,272,252</u>
Expenditures:				
Instruction	3,028,163	2,333,220	2,979,707	(646,487)
Support services:				
Student	145,138	176,928	207,618	(30,690)
Instruction staff	355,626	321,230	352,939	(31,709)
Business	372,000	-	187,275	(187,275)
Plant operation and maintenance	-	-	70,727	(70,727)
Student transportation	214,017	175,110	376,058	(200,948)
Community Service Activities	307,281	314,851	333,536	(18,685)
Total Expenditures	<u>4,422,225</u>	<u>3,321,339</u>	<u>4,507,860</u>	<u>(1,186,521)</u>
Excess (Deficit) Of Revenues Over Expenditures	<u>(372,000)</u>	<u>(163,646)</u>	<u>(77,915)</u>	<u>85,731</u>
Other Financing Sources (Uses)				
Operating transfers in	372,000	163,646	77,915	(85,731)
Operating transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>372,000</u>	<u>163,646</u>	<u>77,915</u>	<u>(85,731)</u>
Excess (Deficit) Of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balance, July 1, 2011	<u>-</u>	<u>-</u>	<u>-</u>	
Fund Balance, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

See accompanying report of independent auditors.

SUPPLEMENTARY INFORMATION

NELSON COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2012

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

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, 2012

	Capital Outlay Fund	Building Fund	Total
Revenues:			
From Local Sources:			
Taxes:			
Property	\$ -	\$ 3,150,000	\$ 3,150,000
Intergovernmental - State	425,020	908,320	1,333,340
Total Revenues	<u>425,020</u>	<u>4,058,320</u>	<u>4,483,340</u>
Expenditures	-	-	-
Debt Service	425,020	4,009,392	4,434,412
Total Expenditures	<u>425,020</u>	<u>4,009,392</u>	<u>4,434,412</u>
Excess (deficit) of revenues over expenditures	-	48,928	48,928
Other financing sources (uses)			
Proceeds from sale of bonds	-	8,670,000	8,670,000
Bond discount	-	(63,746)	(63,746)
Payment to refund bond excrow agent	-	(8,606,254)	(8,606,254)
Operating transfers in	-	-	-
Operating transfers out	-	(48,928)	(48,928)
Total other financing sources (uses)	<u>-</u>	<u>(48,928)</u>	<u>(48,928)</u>
Change in fund balances	-	-	-
Fund balance, July 1, 2011	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET ASSETS – AGENCY FUNDS

JUNE 30, 2012

	Bloomfield Middle School	New Haven Elementary School	Boston Elementary School	Old Ky Home Middle School	Cox's Creek Elementary School
Assets					
Cash and cash equivalents	\$ 47,963	\$ 30,305	\$ 58,561	\$ 83,532	\$ 96,089
Accounts receivable	-	-	-	-	-
Total assets	\$ 47,963	\$ 30,305	\$ 58,561	\$ 83,532	\$ 96,089
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to student groups	47,963	30,305	58,561	83,532	96,089
Total liabilities	\$ 47,963	\$ 30,305	\$ 58,561	\$ 83,532	\$ 96,089
	Foster Heights Elementary School	Nelson County High School	Bloomfield Elementary School	Thomas Nelson High School	Total Agency Funds
Assets					
Cash and cash equivalents	\$ 106,761	\$ 221,532	\$ 77,005	\$ 3,556	\$ 725,304
Accounts receivable	-	-	-	-	-
Total assets	\$ 106,761	\$ 221,532	\$ 77,005	3,556	725,304
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	-	-
Due to student groups	106,761	221,532	77,005	3,556	725,304
Total liabilities	\$ 106,761	\$ 221,532	\$ 77,005	\$ 3,556	\$ 725,304

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, 2012

	Cash Balance July 1, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Due to Student Groups June 30, 2012
Bloomfield Middle School	\$ 38,769	\$ 142,167	\$ 132,973	\$ 47,963	\$ 47,963
New Haven Elementary School	39,410	69,486	78,591	30,305	30,305
Boston Elementary School	63,610	68,864	73,913	58,561	58,561
Old Ky Home Middle School	57,531	176,034	150,033	83,532	83,532
Cox's Creek Elementary School	101,529	138,868	144,308	96,089	96,089
Foster Heights Elementary School	88,599	123,357	105,195	106,761	106,761
Nelson County High School	189,675	614,221	582,364	221,532	221,532
Thomas Nelson High School	-	3,740	184	3,556	3,556
Nelson Co. Early Learning Center	-	-	-	-	-
Bloomfield Elementary School	76,653	42,370	42,018	77,005	77,005
Totals	<u>\$ 655,776</u>	<u>\$ 1,379,107</u>	<u>\$ 1,309,579</u>	<u>\$ 725,304</u>	<u>\$ 725,304</u>

See accompanying report of independent auditors.

NELSON COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balance July 1, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2012
Administration	\$ 1,189	\$ 99,844	\$ 92,362	\$ 8,671	\$ -	\$ 8,671
Athletic Vending	5,185	13,870	11,837	7,218	-	7,218
Banking for Students	135	16	-	151	-	151
Teachers' Lounge	2,848	8,711	8,767	2,792	-	2,792
Band	62	1,046	1,108	-	-	-
Field Trips	180	869	914	135	-	135
Credit Recover	-	1,400	1,400	-	-	-
Cardinal Collection	1,659	19	-	1,678	-	1,678
Science	22	408	430	-	-	-
AP Tests	1,062	10,423	11,235	250	-	250
Drama	544	9,291	8,096	1,739	-	1,739
Guidance	609	1,219	13	1,815	-	1,815
Bowling Fees	1	-	1	-	-	-
FMD. ACCT.	237	-	237	-	-	-
Tuition	2,166	8,024	3,226	6,964	-	6,964
Library	4,800	2,040	3,107	3,733	-	3,733
Nurse	2,316	96	1,387	1,025	-	1,025
NOW	4,545	186	4,731	-	-	-
Partnership	76	-	76	-	-	-
Textbook - Lost/Damaged	7,445	4,260	1,156	10,549	-	10,549
Use of Building	5,335	7,350	7,967	4,718	-	4,718
Yearbook	25,262	6,120	953	30,429	-	30,429
Milk Vending	11,617	24,464	22,534	13,547	-	13,547
Smoking Cessation	1,583	309	-	1,892	-	1,892
ROTC - Unit Funds	8,990	19,330	13,484	14,836	-	14,836
Textbook Fees	21,754	18,106	6,321	33,539	-	33,539
Spirit Store	114	-	114	-	-	-
Art	4,696	4,415	3,608	5,503	-	5,503
Reimbursement Acct.	171	89	260	-	-	-
Freshman of Month	361	750	630	481	-	481
PE Class	5,297	3,916	4,458	4,755	-	4,755
Graduate Class	872	2,951	-	3,823	-	3,823
Math Dept.	62	168	50	180	-	180
Humanities Class	328	14,147	13,654	821	-	821
Thomas Nelson H.S.	-	1,312	-	1,312	-	1,312
Transition Acct.	477	1,431	865	1,043	-	1,043
NSF	-	161	161	-	-	-
Heritage Club	250	-	-	250	-	250
Key Club	1,821	8,050	8,056	1,815	-	1,815
Book Club - Page	11	28	-	39	-	39
FFA	157	34,967	34,979	145	-	145
Y Club	91	-	91	-	-	-
St. Council	6,400	6,975	5,375	8,000	-	8,000
Speech & Debate Team	-	-	-	-	-	-
Grade 9	-	-	-	-	-	-
Grade 10	-	-	-	-	-	-
Grade 11	957	12,356	11,511	1,802	-	1,802
Grade 12	3,171	-	3,101	70	-	70
National Honor Society	2,405	5,547	4,407	3,545	-	3,545
FFA - Corn Maze	993	11,218	12,211	-	-	-
Tech. Student Assoc.	1,196	-	-	1,196	-	1,196
AP Government Trip	211	-	211	-	-	-
Literary Magazine	80	52	50	82	-	82
Student Council	4,997	10,581	11,469	4,109	-	4,109
AP Biology	-	900	900	-	-	-
Cardinal Theatre	-	806	806	-	-	-
Anatomy Class	-	1,337	1,337	-	-	-

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, 2012

	Cash Balance July 1, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2012
(Continued)						
FFA - Scholarship	923	2,265	1,988	1,200	-	1,200
Academic Team	491	-	32	459	-	459
CASA-SADD	326	-	300	26	-	26
FFA - Fruit Sales	-	8,198	8,198	-	-	-
Felloship-Christian	887	1,125	849	1,163	-	1,163
FFA - Greenhouse	985	2,770	3,754	1	-	1
FFA - Floriculture	-	502	502	-	-	-
FFA - Region Lincoln	3,247	1,691	1,390	3,548	-	3,548
Girls' Golf	1,837	4,870	5,617	1,090	-	1,090
Girls' Soccer	-	642	607	35	-	35
Athletic	5,513	116,513	119,778	2,248	-	2,248
Boys' Basketball	1,799	15,142	15,975	966	-	966
Cardinal Concessions	-	15,237	15,237	-	-	-
Turf Account	217	29,957	29,888	286	-	286
Track	4,087	3,024	6,765	346	-	346
Caution Crew	586	3,838	3,076	1,348	-	1,348
Boys' Soccer	1,386	430	717	1,099	-	1,099
Pom Pom Squad	2	1,850	1,485	367	-	367
Archery	153	754	685	222	-	222
Cross Country	9,231	6,045	12,999	2,277	-	2,277
Tennis	938	3,042	3,163	817	-	817
Baseball	480	2,419	2,897	2	-	2
Girls' Softball	24	8,454	8,286	192	-	192
Volleyball	2,857	9,966	11,405	1,418	-	1,418
Boys' Golf	295	1,135	550	880	-	880
Swim Team	-	1,245	1,245	-	-	-
Cheerleaders	3,329	7,299	5,485	5,143	-	5,143
Bowling Team	-	2,218	2,218	-	-	-
Lady Cards' Basketball	1,796	19,720	19,245	2,271	-	2,271
Wrestling	2,161	2,946	4,482	625	-	625
Football Team	712	9,310	1,379	8,643	-	8,643
NC Elementary Boys	673	15,001	15,466	208	-	208
Sub Total	189,675	657,166	625,309	221,532	-	221,532
Transfers	-	42,945	42,945	-	-	-
TOTAL	\$ 189,675	\$ 614,221	\$ 582,364	\$ 221,532	\$ -	\$ 221,532

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, 2012

	<u>Cash Balance July 1, 2011</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash Balance June 30, 2012</u>	<u>Accounts Receivable and due from other funds</u>	<u>Due to Student Groups June 30, 2012</u>
General	\$ -	\$ 2,500	\$ 184	\$ 2,316	\$ -	\$ 2,316
Tuition	-	360	-	360	-	360
Football	-	850	-	850	-	850
Dance Team	-	30	-	30	-	30
Sub Total	-	3,740	184	3,556	-	3,556
Transfers	-	-	-	-	-	-
TOTAL	<u>\$ -</u>	<u>\$ 3,740</u>	<u>\$ 184</u>	<u>\$ 3,556</u>	<u>\$ -</u>	<u>\$ 3,556</u>

See accompanying report of independent auditors.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Department Of Education			
Passed through the Kentucky Department of Education			
Title I Cluster			
Title I - Part A Cluster	84.010	3101	\$ 66,992
		3100D	13,808
		3101M	2,938
		3102	566,259
		3102D	46,566
		3102M	1,978
		3102X	5,775
		310XD	4,348
		3202	<u>29,230</u>
TOTAL TITLE I CLUSTER			<u>737,894</u>
Special Education Cluster (IDEA)			
Special Education - Grants to State	84.027	3371	387,063
		3372	827,755
		3372P	<u>29,659</u>
			<u>1,244,477</u>
Special Education - Preschool Grants	84.173	3431	2,664
		3431P	(9,880)
		3432	40,048
		3432P	<u>6,399</u>
			<u>39,231</u>
ARRA - Special Education - Preschool Grants	84.391	4249	<u>9,801</u>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>1,293,509</u>
Vocational Education - Basic Grants to States			
	84.048	3480A	833
		3481A	1,095
		3482	<u>5,474</u>
			<u>7,402</u>
Improving Teacher Quality - State Grants			
	84.367	4011	10,600
	84.367	4012	<u>198,282</u>
			<u>208,882</u>
TOTAL EDUCATION TECHNOLOGY STATE GRANTS CLUSTER			<u>216,284</u>
ARRA - Education for Homeless Children and Youth	84.387	3219	<u>604</u>
Education Jobs Funding	84.410	4411	<u>263,486</u>
Twenty-First Century Community Learning Centers			
	84.287	5500Z	24,500
		5501	104,389
		5501B	149,300
		5501S	822
		5502S	<u>945</u>
			<u>279,956</u>
Total U.S. Department Of Education			<u><u>2,791,733</u></u>

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, 2012

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>
(Continued)			
<u>U.S. Department Of Agriculture</u>			
Child Nutrition Cluster:			
Cash Assistance			
Passed through the Kentucky Department of Education			
School Breakfast Program	10.553	090451999	404,413
National School Lunch Program	10.555	090451999	1,081,918
Noncash Assistance (Commodities)			
National School Lunch Program	10.555	090451999	<u>126,077</u>
Total U.S. Department Of Agriculture			<u>1,612,408</u>
<u>U.S. Department Of Energy</u>			
Passed through the Kentucky Department of Education			
ARRA - State Energy Program	81.041	5692	<u>8,832</u>
Total U.S. Department Of Energy			<u>8,832</u>
<u>U.S. Department Of Justice</u>			
Passed through the Kentucky Department of Education			
Public Safety Partnership and Community Policing Grants	16.710	4501	11,408
		4522	<u>3,946</u>
Total U.S. Department Of Justice			<u>15,354</u>
Total Federal Program Expenditures			<u>\$ 4,428,327</u>

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

NELSON COUNTY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2012

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, 2012.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2012

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? Yes no
- Significant deficiencies(s) identified that are not considered to be material weaknesses? Yes none reported

Noncompliance material to financial statements noted? Yes no

Federal Awards

Internal control over major programs:

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

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

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

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2012

Section I – Summary of Auditor’s Results – Continued

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	Child Nutrition Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program
	Special Education Cluster (IDEA)
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants
84.391	ARRA – Special Education Grants to States
	Other Programs
84.410	Education Jobs

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 2011-01

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 does not record 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.

NELSON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2012

Section II – Financial Statement Findings – Continued

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.

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, 2012

REFERENCE NUMBER 2011-02

Condition: During our audit, we noted that the Data Collection Form had not been filed with the Federal Audit Clearinghouse for at least the past three years.

Current Status: For the year ending June 30, 2011, the Data Collection Form was filed timely with the Federal Audit Clearinghouse.

SMITH & COMPANY CPA's, PLLC

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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

Independent Auditor's Report

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate discretely presented component unit and remaining fund information of Nelson County School District as of and for the year ended June 30, 2012, which collectively comprise Nelson County School District's basic financial statements and have issued our report thereon dated November 12, 2012. 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 of America, *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*.

Internal Control Over Financial Reporting

Management of Nelson County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Nelson County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nelson County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Nelson County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting 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 2012-01 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* and under the specific state statutes and 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 12, 2012.

Nelson County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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.



Bardstown, Kentucky
November 12, 2012

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Independent Auditor's Report

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

Compliance

We have audited the compliance of Nelson County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Nelson County School District's management. Our responsibility is to express an opinion on Nelson County School District's compliance based on our audit.

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, 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 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 Nelson County School 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. Our audit does not provide a legal determination of Nelson County School District's compliance with those requirements.

In our opinion, Nelson County School District complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

The management of Nelson County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Nelson County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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.



Bardstown, Kentucky
November 12, 2012

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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, 2012, 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 12, 2012 contains our report on the District's internal control structure. This letter does not affect our report dated November 12, 2012 on the financial statements of the Nelson County School District.

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

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

Respectfully,



Bardstown, Kentucky
November 12, 2012

NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2012

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:	BES	BMS	BS	OKH MS
Missing fundraiser worksheets			√	√
Missing multiple receipt forms		√		
Inventory control sheets not completed			√	√
Sales tax paid on transaction	√			
Purchase order 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

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 offer annual Red Book training.

NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2012

STATUS OF PRIOR YEAR FINDINGS

The chart below summarizes conditions we noted during our audit for the year ending June 30, 2011.

Conditions:	BES	BMS	BS	FH ES	NC HS	NHS	OKH MS
Missing fundraiser worksheets				√		√	
No board approval for fundraising activity	√			√		√	
Multiple receipt forms used incorrectly	√	√					
Missing multiple receipt forms							√
Inventory control sheets not completed		√		√	√	√	
Sales tax paid on transaction		√					
Purchase orders not completed							√
Bank reconciliation not approved							√

Legend:

- BES – Bloomfield Elementary School
- BMS – Bloomfield Middle School
- BS – Boston School
- FHES – Foster Heights Elementary School
- NCHS – Nelson County High 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, 2012.

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