

Financial Statements and Reports
Required by the Single Audit Act

2014

Fayette County School District

For the Fiscal Year Ended June 30, 2014



Financial Statements and Reports
Required by the Single Audit Act

Fayette County School District

For the Fiscal Year Ended June 30, 2014

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Independent Auditors' Report



Members of the Board of Education
Fayette County School District
Lexington, Kentucky

Report on the Financial Statements

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fayette County School District (the "District") as of and for the year ended June 30, 2014, and the related notes to financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (Unaudited) on pages 4 through 10 and the budgetary comparison information on pages 44 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 to provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining supplementary information on pages 47 and 48 is presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

STROTHMAN AND COMPANY

Louisville, Kentucky
November 14, 2014

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis (Unaudited)

Fayette County School District

Year Ended June 30, 2014

As management of the Fayette County School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit report. This is the seventh year the District has prepared the annual financial report using the new financial reporting model. The district has implemented GASB Statement 65, *Items Previously Reported as Assets and Liabilities* this fiscal year, which reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. The reporting model is a combination of both District-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$90.0 million in 2014 and \$109.6 million in 2013.
- From 2013 to 2014, total revenue increased by 3.89%. Revenue from local sources increased 5.87% while revenue from the state increased by 3.57%. Revenues from grant sources decreased by 14.94%, while our total net position decreased by 2.51%.

Table One
Total Revenue Comparison Analysis (Governmental Activities)

Revenues	2014	2013	Change
Local Sources:			
Property Taxes	\$ 176,446,591	\$ 167,048,554	\$ 9,398,037
Motor Vehicle Taxes	11,514,872	11,196,766	318,106
Utility Taxes	22,764,924	21,782,444	982,480
Occupational Taxes	33,534,785	30,686,726	2,848,059
State Sources:			
SEEK Program	91,811,206	88,724,082	3,087,124
Other State Revenues	81,307,764	78,218,148	3,089,616
KSFCC Allocation	990,276	1,167,497	(177,221)
Grants	22,288,039	26,201,873	(3,913,834)
Earnings on Investments	283,618	345,248	(61,630)
Other Sources	7,807,726	6,563,668	1,244,058
Total Revenues	\$ 448,749,801	\$ 431,935,006	\$ 16,814,795

Continued

Management's Discussion and Analysis (Unaudited)--Continued

Fayette County School District

Year Ended June 30, 2014

Table Two
Total Expense Analysis (Governmental Activities)

Expenses	2014	2013	Change
Instruction	\$ 283,706,867	\$ 266,184,653	\$ 17,522,214
Student support services	22,979,006	23,989,107	(1,010,101)
Instructional staff support services	19,043,794	19,154,729	(110,935)
District administrative support services	6,690,765	6,644,558	46,207
School administrative support services	23,225,277	22,961,294	263,983
Business support services	24,655,068	23,897,007	758,061
Plant operations and maintenance	39,789,728	40,767,266	(977,538)
Transportation	22,906,393	20,161,900	2,744,493
Food service	26,581	17,225	9,356
Facilities acquisition/construction		4,340,597	(4,340,597)
Community services	3,312,820	2,471,569	841,251
Interest	12,669,045	13,142,074	(473,029)
Total Expenses	\$ 459,005,344	\$ 443,731,979	\$ 15,273,365

Among major funds, the General Fund had approximately \$380 million in revenue in FY 2014 and \$361 million in revenue in FY 2013, which primarily consisted of local property taxes, local occupational license taxes, utilities and motor vehicle taxes, federal programs and state funding (the SEEK program). There were approximately \$392 million in expenditures in FY 2014 and \$385 million in expenditures in FY 2013.

- In the second year of the state's more rigorous testing and accountability system, Fayette County Public Schools scored in the 82nd percentile, ranking 62nd out of 174 schools districts and posting the 45th highest score in the state.
- Fayette County Public Schools ranked 32nd in the state among all non-independent school districts and 5th among districts with more than 10,000 students.
- Three Fayette County Public Elementary Schools were ranked among the top 25 in the state, two middle schools were ranked among the top 10 in the state and three high schools were ranked among the top 50 in the state.
- FCPS is one of four school districts in the nation that has been awarded a Spending Money Smartly grant by the Gates Foundation. Through this grant, we partnered with the District Management Council to examine budget and spending practices in FCPS. During the spring of 2014, we trimmed \$17.5 million from our budget while covering all reduced positions by attrition, saving 110 positions through staff calendar reductions, ensuring that no employees lost any compensation and maintaining all programs and services.

Continued

Management's Discussion and Analysis (Unaudited)--Continued

Fayette County School District

Year Ended June 30, 2014

- Students from Fayette County Public Schools earned accolades including first place in the National Quiz Bowl and top honors in the World Fit competition. Additionally, eight students earned perfect scores on the ACT, 45 students were named National Merit Semifinalists, and two were named National Achievement Semifinalists. The district also sent 45 students to the Governor's School for the Arts, eight students to the Governor's School for Entrepreneurs and had 62 Governor's Scholars.
- A fifth Fayette County Public School was named a Blue Ribbon School – a trademark of excellence and a symbol of quality noted by everyone from parents to policy-makers – during the 2013-14 school year and a third Fayette County Public School was named a Green Ribbon School for its exemplary efforts to reduce environmental impact and utility costs, promote better health, and ensure effective environmental education, including civics and green career pathways.
- Fayette County Public Schools was named to the fourth annual Advanced Placement District Honor Roll, for simultaneously increasing access to AP course work while increasing the percentage of students earning scores of 3 or higher on AP exams.
- Fayette County Public Schools is among 2014's Best Communities for Music Education, according to the NAMM Foundation, which recognizes districts and individual schools that set the bar in offering students access to comprehensive music programs. FCPS was the only district in Kentucky selected.
- 187 teachers have earned National Board Certification. FCPS is proud to be home to the State Middle School Teacher of the Year, the State French Teacher of the Year, the State High School Science Teacher of the Year, the State's Elementary Science Teacher of the Year, the State's Elementary School Music Teacher of the Year, the State Media Adviser of the Year, the 2013 Outstanding New World Languages Teacher Award winner and the 2013 winner of the Presidential Award for Excellence in Mathematics and Science Teaching.
- During fiscal year 2014, the district opened the STEAM Academy, a partnership with the University of Kentucky. STEAM, which stands for Science, Technology, Engineering, Arts and Mathematics, is the broad umbrella for how the curriculum in this new "innovation zone" program is organized. Students tackle high school concepts at very high levels, all through the lens of authentic, problem-based learning within the STEAM lens.
- Also in the fall of 2013, the district opened the Fayette County Preschool Center, where services are provided for three and four-year-olds with special needs or four-year-olds whose families live in poverty.
- During fiscal year 2014 the following construction projects were completed: Tates Creek Middle renovation, Cardinal Valley Elementary renovation, Clays Mill Elementary School renovation and Russell Cave Rd Warehouse adaptive re-use.

Continued

Fayette County School District

Year Ended June 30, 2014

- Fayette County Public Schools is currently finalizing construction renovation completion on Breckinridge, Mary Todd, James Lane Allen, Meadowthorpe, Stonewall, Tates Creek, Deep Springs, Garden Springs and Glendover Elementary Schools.
- The Financial Services administration team continues to focus on improving efficiencies in managing the expenses and revenues of the District to ensure the resources are available for all students to learn at the highest levels through sound financial management.
- District leadership continues to work directly with the Budget and Finance Committee, the Board of Education, finance consultants and staff to review and implement sound fiscal practices in utilizing school funding.
- Five Financial Services staff members are certified in Grants Management.
- Five FCPS staff members have successfully achieved their CSFO (Certified School Financial Officer) certification.
- Ten FCPS staff members have received certification of CSFM (Certified School Financial Manager) of which includes the aforementioned five CSFO staff members.
- The District created the Office of Evaluation and Planning Office as a cross-functional data team that will lead efforts to interpret data, identify root causes, and provide actionable feedback to inform strategic planning and resource allocation. The unit leads three primary areas: 1) Program Evaluation, 2) Strategic Planning, and 3) Grant Funding/Acquisition.
- Fayette County has been working in progress for several months on the development of a 3-5 year strategic financial management plan. This strategic plan will assist the superintendent and Board in making decisions about the necessity of increasing revenue, planning for anticipated expenses and the allocation of resources. The final version will be completed during the 2014-2015 fiscal 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 financial statements are comprised of three components: 1) District-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements.

The District-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 statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving.

Continued

Management's Discussion and Analysis (Unaudited)--Continued

Fayette County School District

Year Ended June 30, 2014

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. The District-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, plant operations and maintenance, student transportation and operation of non-instructional services. Capital assets and related debt are also supported by taxes and intergovernmental revenues.

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

Fund financial statements.

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

The governmental fund financial statements can be found on pages 13 through 17 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements.

The notes to financial statements can be found on pages 23 through 44 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment, and construction in progress) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. 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.

This is the twelfth year that the District is following GASB 34 and comparing assets, liabilities and net assets.

Continued

Management's Discussion and Analysis (Unaudited)--Continued

Fayette County School District

Year Ended June 30, 2014

2014 District-Wide Net Position compared to 2013 follows:

Table Three
2014 District-Wide Net Position Compared to 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 108,915,281	\$ 184,780,849	\$ 5,574,251	\$ 4,736,892	\$ 114,489,532	\$ 189,517,741
Capital assets, net of depreciation	516,666,652	467,444,175	3,970,971	3,925,766	520,637,623	471,369,941
Total Assets	625,581,933	652,225,024	9,545,222	8,662,658	635,127,155	660,887,682
Short-term liabilities	36,147,469	38,027,258	812,774	540,437	36,960,243	38,567,695
Other liabilities	390,485,522	397,386,071			390,485,522	397,386,071
Total Liabilities	426,632,991	435,413,329	812,774	540,437	427,445,765	435,953,766
Net Position						
Net investment in capital assets	126,180,899	72,161,751	3,970,971	3,925,766	130,151,870	76,087,517
Restricted	48,483,127	130,152,399	4,761,477	4,196,455	53,244,604	134,348,854
Unrestricted	31,039,983	14,497,545			31,039,983	14,497,545
Total Net Position	\$ 205,704,009	\$ 216,811,695	\$ 8,732,448	\$ 8,122,221	\$ 214,436,457	\$ 224,933,916

The following table presents a comparison and summary of revenue and expenditures for the fiscal years 2014 and 2013.

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues						
Charges for service	\$ 167,535	\$ 182,874	\$ 7,591,246	\$ 7,756,858	\$ 7,758,781	\$ 7,939,732
Operating grants & contributions	23,293,636	27,376,022	13,735,735	12,906,600	37,029,371	40,282,622
Capital grants & contributions		120,950	1,772,844	1,893,737	1,772,844	2,014,687
General revenues						
Local taxes	244,261,172	230,714,490			244,261,172	230,714,490
State sources	173,118,970	166,942,230			173,118,970	166,942,230
Earnings on investments	283,618	345,248	8,037	7,227	291,655	352,475
Other	7,807,726	6,253,192			7,807,726	6,253,192
Total Revenues	448,932,657	431,935,006	23,107,862	22,564,422	472,040,519	454,499,428
Expenses						
School operating & administration	446,336,299	430,589,905			446,336,299	430,589,905
School food services			20,466,784	20,559,329	20,466,784	20,559,329
After school program			2,030,851	1,883,334	2,030,851	1,883,334
Interest on debt service	12,669,045	13,142,074			12,669,045	13,142,074
Total Expenses	459,005,344	443,731,979	22,497,635	22,442,663	481,502,979	466,174,642
Change in Net Position	\$ (10,072,687)	\$ (11,796,973)	\$ 610,227	\$ 121,759	\$ (9,462,460)	\$ (11,675,214)

Continued

Management's Discussion and Analysis (Unaudited)--Continued

Fayette County School District

Year Ended June 30, 2014

The changes in the balances and transactions of individual funds have all been examined and explained. Changes in the final budget when compared to the original were not material.

Analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund indicate that there were no variations which would have a significant effect on future services or liquidity. The district budgeted approximately \$350 million dollars in revenue and received approximately \$351 million in general fund excluding on behalf revenue. Our financial position remains strong and we will continue to utilize trend analysis to help predict such variances in the future. We are one of four school districts in the nation that has been awarded a Spending Money Smartly grant by the Gates Foundation. Through this grant, we will be working with the District Management Council to examine budget and spending practices in Fayette County and make the changes necessary to ensure the maximum academic return on investment.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1 - June 30; other programs, i.e. some federal programs, operate on a different program calendar, but are reflected in the District overall budget. By Kentucky statute the budget must have a minimum 2% contingency. The District adopted a budget for 2014 with \$19.7 million in contingency that is approximately 5.6%. The District is the second largest in the state with approximately 40,648 students and is the second largest employer in Fayette County.

This audit is posted on the District website (www.fcps.net). Questions regarding this report should be directed to Dr. Tom Shelton, Superintendent (859) 381-4104, Mary Browning, Chief Operating Officer (859) 381-4165, Rodney Jackson, Director of Financial Services (859) 381-4141 or by mail at 701 East Main Street, Lexington, Kentucky 40502.

District-wide Financial Statements

Statement of Net Position

Fayette County School District

June 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 85,333,400	\$ 4,680,646	\$ 90,014,046
Investments	328,209		328,209
Accounts and grants receivable from outside sources	21,045,181	460,752	21,505,933
Inventories	2,190,742	450,602	2,641,344
Internal balances	17,749	(17,749)	
Capital assets, net of accumulated depreciation	516,666,652	3,970,971	520,637,623
Total Assets	625,581,933	9,545,222	635,127,155
Deferred Outflows of Resources			
Debt Refunding	6,755,067		6,755,067
Liabilities			
Accounts payable and accrued liabilities due to outside sources	30,184,330	812,774	30,997,104
Interest payable	2,920,831		2,920,831
Deferred revenue	3,042,308		3,042,308
Accrued sick leave			
Due within one year	1,494,197		1,494,197
Due in more than one year	4,300,293		4,300,293
School building revenue bonds			
Due within one year	17,905,000		17,905,000
Due in more than one year	349,265,000		349,265,000
Unamortized Premium	10,984,430		10,984,430
Capital lease			
Due within one year	1,278,002		1,278,002
Due in more than one year	5,258,600		5,258,600
Total Liabilities	426,632,991	812,774	427,445,765
Net Position			
Net investment in capital assets	126,180,899	3,970,971	130,151,870
Restricted for:			
Capital projects	47,748,572		47,748,572
Other purposes	734,555	4,761,477	5,496,032
Unrestricted	31,039,983		31,039,983
Total Net Position	\$ 205,704,009	\$ 8,732,448	\$ 214,436,457

See Accompanying Notes to Financial Statements

Statement of Activities

Fayette County School District

Year Ended June 30, 2014

Functions/Programs	Program Revenues				Net (Expenses) Revenues
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instruction	\$ 283,706,867	\$ 167,535	\$ 22,303,360		\$ (261,235,972)
Support Services					
Student	22,979,006				(22,979,006)
Instruction staff	19,043,794				(19,043,794)
District administration	6,690,765				(6,690,765)
School administration	23,225,277				(23,225,277)
Business	24,655,068				(24,655,068)
Plant operation and maintenance	39,789,728		990,276		(38,799,452)
Student transportation	22,906,393				(22,906,393)
Food Service	26,581				(26,581)
Community service activities	3,312,820				(3,312,820)
Interest on long-term debt	12,669,045				(12,669,045)
Total Governmental Activities	459,005,344	167,535	23,293,636		(435,544,173)
Business-Type Activities					
Food service	20,466,784	5,342,953	13,505,336	\$ 1,772,844	154,349
After school program	2,030,851	2,248,293	230,399		447,841
Total Business-Type Activities	22,497,635	7,591,246	13,735,735	1,772,844	602,190
Total Activities	\$ 481,502,979	\$ 7,758,781	\$ 37,029,371	\$ 1,772,844	\$ (434,941,983)
			Governmental Activities	Business- Type Activities	Total
Changes in Net Position					
Net Expenses			\$ (435,544,173)	\$ 602,190	\$ (434,941,983)
General Revenues					
Taxes					
Property taxes			176,446,591		176,446,591
Motor vehicle taxes			11,514,872		11,514,872
Utility taxes			22,764,924		22,764,924
Occupational license tax			33,534,785		33,534,785
State sources					
SEEK program			91,811,206		91,811,206
Other state revenues and grants			81,307,764		81,307,764
Earnings on investments			283,618	8,037	291,655
Local revenues			7,807,726		7,807,726
Total General Revenues			425,471,486	8,037	425,479,523
Change in Net Position			(10,072,687)	610,227	(9,462,460)
Net Position, Beginning of Year			215,776,696	8,122,221	223,898,917
Net Position, End of Year			\$ 205,704,009	\$ 8,732,448	\$ 214,436,457

See Accompanying Notes to Financial Statements

Fund Financial Statements

Balance Sheet - Governmental Funds

Fayette County School District

June 30, 2014

	General Fund	Special Revenue	Debt Service	Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 32,326,300		\$ 146,240	\$ 51,645,437	\$ 1,215,423	\$ 85,333,400
Investments					328,209	328,209
Accounts and grants receivable from outside sources	14,713,338	\$ 6,234,459			97,384	21,045,181
Inventories	2,190,742					2,190,742
Interfund receivables	2,958,764					2,958,764
Due from other funds	17,749					17,749
Total Assets	\$ 52,206,893	\$ 6,234,459	\$ 146,240	\$ 51,645,437	\$ 1,641,016	\$ 111,874,045
Liabilities						
Accounts payable and accrued liabilities due to outside sources	\$ 24,376,727	\$ 858,037		\$ 4,949,566		\$ 30,184,330
Accrued sick leave	1,494,197					1,494,197
Deferred revenue	624,650	2,417,658				3,042,308
Interfund payables		2,958,764				2,958,764
Total Liabilities	26,495,574	6,234,459		4,949,566		37,679,599
Fund Balances						
Assigned	1,742,263					1,742,263
Restricted			\$ 146,240	46,695,871	\$ 1,641,016	48,483,127
Non-spendable	2,190,742					2,190,742
Unassigned	21,778,314					21,778,314
Total Fund Balances	25,711,319		146,240	46,695,871	1,641,016	74,194,446
Total Liabilities and Fund Balances	\$ 52,206,893	\$ 6,234,459	\$ 146,240	\$ 51,645,437	\$ 1,641,016	\$ 111,874,045

Continued

Balance Sheet - Governmental Funds--Continued

Fayette County School District

June 30, 2014

Reconciliation of the Balance Sheet - Governmental Funds to the District-Wide Statement of Net Position

Total fund balance per fund financial statements	\$ 74,194,446
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in the fund financial statements because they are not current financial resources, but they are reported in the statement of net position	516,666,652
Certain assets are not reported in the fund financial statements because they are not available to pay current period expenditures, but they are reported in the statement of net position	6,755,067
Certain liabilities (such as bonds payable, premiums/discounts on bonds payable, capital lease obligations, the long-term portion of accrued sick leave, and interest payable) are not reported in the fund financial statements because they are not due and payable from current financial resources, but they are presented in the statement of net position	<u>(391,912,156)</u>
Net Position of Governmental Activities	\$ <u><u>205,704,009</u></u>

See Accompanying Notes to Financial Statements

Statement of Revenues, Expenditures and Changes in Fund Balances
 - Governmental Funds

Fayette County School District

Year Ended June 30, 2014

	General Fund	Special Revenue	Debt Service	Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Local sources						
Property taxes	\$ 149,638,315				\$ 26,808,276	\$ 176,446,591
Motor vehicle taxes	10,567,158				947,714	11,514,872
Utility taxes	22,764,924					22,764,924
Occupational license tax	33,534,785					33,534,785
State sources						
SEEK	88,289,863				3,521,343	91,811,206
Other state revenues	68,209,216	\$ 10,848,194	\$ 2,250,354			81,307,764
KSFCC allocation			990,276			990,276
Grants (principally United States government and local agencies)		22,288,039				22,288,039
Earnings on investments	156,325				16,592	283,618
Other sources	5,714,874	2,260,387	110,701		15,321	7,990,582
Total Revenues	378,875,460	35,396,620	3,351,331		31,309,246	448,932,657
Expenditures						
Instruction	238,521,546	23,641,219				262,162,765
Support services						
Student	20,443,899	2,534,513				22,978,412
Instruction staff	16,878,899	2,164,895				19,043,794
District administration	6,661,834	24,318				6,686,152
School administration	21,858,553	1,366,724				23,225,277
Business	22,987,011	1,668,057				24,655,068

Continued

Statement of Revenues, Expenditures and Changes in Fund Balances
 - Governmental Funds--Continued

Fayette County School District

Year Ended June 30, 2014

	General Fund	Special Revenue	Debt Service	Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Plant operation and maintenance	39,658,701	119,610				39,778,311
Student transportation	21,919,519	12,904				21,932,423
Food Service		26,581				26,581
Community service activities	258	3,301,914			10,648	3,312,820
Facilities acquisition and construction				\$ 64,013,429		64,013,429
Debt service	1,509,377		31,438,731			32,948,108
Total Expenditures	390,439,597	34,860,735	31,438,731	64,013,429	10,648	520,763,140
Revenues in Excess of (Less Than) Expenditures	(11,564,137)	535,885	(28,087,400)	(64,013,429)	31,298,598	(71,830,483)
Other Financing Sources (Uses)						
Proceeds from capital leases	1,486,037					1,486,037
Proceeds from issuance of bonds		30,260,000				30,260,000
Premium on bonds issued		3,232,743				3,232,743
Proceeds from sale of assets	14,262					14,262
Payments to bond escrow agent		(33,353,646)				(33,353,646)
Bond issuance costs		(139,097)				(139,097)
Loss from investment of bonds	1,088,408	552,523	28,207,185	(125,314)		(125,314)
Operating transfers in	(1,760,796)	(1,088,408)		5,654,489		35,502,605
Operating transfers out					(32,653,401)	(32,653,401)
Total Other Financing Sources (Uses)	827,911	(535,885)	28,207,185	5,529,175	(32,653,401)	1,374,985
Net Change in Fund Balances	(10,736,226)		119,785	(58,484,254)	(1,354,803)	(70,455,498)
Fund Balances, Beginning of Year	36,447,545		26,455	105,180,125	2,995,819	144,649,944
Fund Balances, End of Year	\$ 25,711,319	\$	\$ 146,240	\$ 46,695,871	\$ 1,641,016	\$ 74,194,446

Continued

Statement of Revenues, Expenditures and Changes in Fund Balances
 - Governmental Funds--Continued

Fayette County School District

Year Ended June 30, 2014

Net Change in Fund Balances - Governmental Funds \$ (70,455,498)

Amounts reported for governmental activities in the statement of activities are different because

Capital outlays are reported as expenditures in the fund financial statements because they use current financial resources, but they are presented as capital assets in the statement of net position and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeded depreciation for the year

49,442,261

Additions to bond premiums/discounts, net of related amortization are recognized as expenditures of current financial resources in the fund financial statements but are capitalized in the statement of net position and amortized.

(10,933,929)

Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.

(2,186,687)

Additions to deferred losses on advance refundings, net of related amortization are recognized as expenditures of current financial resources in the fund financial statements but are capitalized in the statement of net position and amortized.

5,544,112

Gains and losses are not presented in the fund financial statements because they do not provide or use current financial resources but they are presented in the statement of activities.

(219,782)

Bond and capital lease principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position

18,736,836

Change in Net Position of Governmental Activities \$ (10,072,687)

See Accompanying Notes to Financial Statements

Statement of Net Position - Proprietary Funds

Fayette County School District

June 30, 2014

	Enterprise Funds		
	Food Service Fund	After School Program Fund	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 3,468,303	\$ 1,212,343	\$ 4,680,646
Accounts receivable	456,497	4,255	460,752
Inventories	450,602		450,602
Total Current Assets	4,375,402	1,216,598	5,592,000
Noncurrent Assets			
Capital assets, net of accumulated depreciation	3,970,971		3,970,971
Total Assets	8,346,373	1,216,598	9,562,971
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	784,313	28,461	812,774
Due to other funds	17,749		17,749
Total Liabilities	802,062	28,461	830,523
Net Position			
Net investment in capital assets	3,970,971		3,970,971
Restricted	3,573,340	1,188,137	4,761,477
Total Net Position	\$ 7,544,311	\$ 1,188,137	\$ 8,732,448

See Accompanying Notes to Financial Statements

Statement of Revenues, Expenses and Changes in
Net Position - Proprietary Funds

Fayette County School District

Year Ended June 30, 2014

	Enterprise Funds		
	Food Service Fund	After School Program Fund	Total
Operating Revenues			
Lunchroom sales	\$ 5,113,666		\$ 5,113,666
Other operating revenues	229,287	\$ 2,248,293	2,477,580
Total Operating Revenues	5,342,953	2,248,293	7,591,246
Operating Expenses			
Salaries, wages and fringe benefits	9,865,344	1,739,143	11,604,487
Material and supplies	9,936,630	291,708	10,228,338
Depreciation	606,821		606,821
Total Operating Expenses	20,408,795	2,030,851	22,439,646
Operating Income (Loss)	(15,065,842)	217,442	(14,848,400)
Non-Operating Revenues			
Federal grants	12,118,671		12,118,671
Donated commodities	1,062,828		1,062,828
State grants	178,910		178,910
Interest income	4,742	3,295	8,037
On-behalf revenues	1,207,755	230,399	1,438,154
Transfer of capital assets	710,017		710,017
Loss on sale of capital assets	(57,990)		(57,990)
Total Non-Operating Revenues	15,224,933	233,694	15,458,627
Change in Net Position	159,091	451,136	610,227
Net Position, Beginning of Year	7,385,220	737,001	8,122,221
Net Position, End of Year	<u>\$ 7,544,311</u>	<u>\$ 1,188,137</u>	<u>8,732,448</u>

See Accompanying Notes to Financial Statements

Statement of Cash Flows - Proprietary Funds

Fayette County School District

Year Ended June 30, 2014

	Enterprise Funds		
	Food Service Fund	After School Program Fund	Total
Cash Flows From Operating Activities			
Cash received from			
Lunchroom sales	\$ 5,877,601		\$ 5,877,601
Other activities	229,287	\$ 2,253,373	2,482,660
Cash paid for			
Employees	(8,657,589)	(1,508,744)	(10,166,333)
Supplies	(8,668,206)	(282,811)	(8,951,017)
	<u>(11,218,907)</u>	<u>461,818</u>	<u>(10,757,089)</u>
Net Cash Provided By (Used In) Operating Activities			
	(11,218,907)	461,818	(10,757,089)
Cash Flows From Noncapital Financing Activities			
Cash received for operating grants	12,297,582		12,297,582
Cash Flows From Investing Activities			
Receipt of interest income	4,742	3,295	8,037
	<u>1,083,417</u>	<u>465,113</u>	<u>1,548,530</u>
Net Increase in Cash and Cash Equivalents			
	1,083,417	465,113	1,548,530
Cash and Cash Equivalents, Beginning of Year			
	<u>2,384,886</u>	<u>747,230</u>	<u>3,132,116</u>
Cash and Cash Equivalents, End of Year			
	<u>\$ 3,468,303</u>	<u>\$ 1,212,343</u>	<u>\$ 4,680,646</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities			
Operating income (loss)	\$ (15,065,842)	\$ 217,442	\$ (14,848,400)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	606,821		606,821
On-behalf revenues	1,207,755	230,399	1,438,154
Donated commodities used in operations	1,062,828		1,062,828
Changes in operating assets and liabilities			
Accounts receivable	763,935	5,079	769,014
Inventory	(56,668)		(56,668)
Accounts payable	263,440	8,898	272,338
Due to other funds	(1,176)		(1,176)
	<u>(11,218,907)</u>	<u>461,818</u>	<u>(10,757,089)</u>
Net Cash Provided By (Used In) Operating Activities			
	\$ (11,218,907)	\$ 461,818	\$ (10,757,089)
Schedule of Non-Cash Activities			
Donated commodities received from federal government (Operating Activity)	\$ 1,062,828		
Donated capital assets	<u>\$ 710,051</u>		

See Accompanying Notes to Financial Statements

Statement of Fiduciary Net Position

Fayette County School District

June 30, 2014

	Private Purpose Trust Funds	Agency Funds	
		Marcie Thomason Fund	School Activity Funds
Assets			
Cash and cash equivalents	\$ 411,801	\$ 158,988	\$ 2,804,217
Investments	1,146,488		
Accounts receivable	4,475		17,879
Due from Fayette County School District			24,534
Inventory			13,857
	<hr/>	<hr/>	<hr/>
Total Assets	1,562,764	<u>\$ 158,988</u>	<u>\$ 2,860,487</u>
Liabilities			
Accounts payable			\$ 64,458
Due to Fayette County School District			13,087
Due to student groups		<u>\$ 158,988</u>	<u>2,782,942</u>
		<hr/>	<hr/>
Total Liabilities		<u>\$ 158,988</u>	<u>\$ 2,860,487</u>
Net Position Held in Trust	<u>\$ 1,562,764</u>		

See Accompanying Notes to Financial Statements

Statement of Changes in Fiduciary Net Position

Fayette County School District

June 30, 2014

	Private Purpose Trust Funds
Additions	
Contributions	\$ 33,905
Gains on investments	159,647
Interest income	<u>1,365</u>
Total Additions and Change in Net Position	194,917
Net Position, Beginning of Year	<u>1,367,847</u>
Net Position, End of Year	<u><u>\$ 1,562,764</u></u>

See Accompanying Notes to Financial Statements

Notes to Financial Statements

Fayette County School District

June 30, 2014

Note A--Reporting Entity

The Fayette County Board of Education (the "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 the Fayette County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources. However, the District is not a component unit of any other governmental "reporting entity". 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 District. The financial statements presented herein do not include funds of groups and organizations which, although associated with the District, have not originated within the District itself such as booster clubs, parent-teacher associations, etc.

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

Based on the foregoing criteria, the financial statements of the Fayette County Board of Education Finance Corporation (the "Corporation") are included in the accompanying financial statements. On December 10, 1990, the Board authorized the establishment of the Corporation (a nonprofit, non-stock and public corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

Note B--Summary of Significant Accounting Policies

Basis of Presentation--District-wide Financial Statements - The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The District-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the District-wide financial statements and the statements for governmental funds.

Continued

Fayette County School District

June 30, 2014

Note B--Summary of Significant Accounting Policies--Continued

The District-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District. The District allocates certain indirect costs to be included in the program expense reported for individual functions and activities in the District-wide statement of activities.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

Governmental Fund Types

- (1) The General Fund is the main operating fund of the District. 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.
- (2) The Special Revenue Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. This is a major fund of the District.
- (3) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

Continued

Fayette County School District

June 30, 2014

Note B--Summary of Significant Accounting Policies--Continued

- (4) The Construction Fund accounts for funds from two sources. First, funds generated by sales of bond issues are used for various construction and renovation projects at educational facilities. Second, proceeds from the sale of properties and equipment owned by the District are to be used at the discretion of the Board for construction projects in future years. This is a major fund of the District.
- (5) The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy and also participates in the Kentucky 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. This is a nonmajor fund of the District.
- (6) 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. This is a nonmajor fund of the District. In reporting these funds, there is a requirement for fiscal years ending in an odd number for the remaining fund balance if any to be restricted. In fiscal years ending with an even number, the fund balance is to be classified as unrestricted.
- (7) Permanent Funds include the Anthony Dey Fund, Lexington Industrial School Fund and the N. Isabel Schmidt Fund. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the District.

Proprietary Fund Types (Enterprise Funds)

- (1) 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. This is a major fund of the District.
- (2) The After School Fund is used to support the after school programs at the individual schools, which have their own program. These funds are used to support the resources needed to actively manage this program.

Fiduciary Fund Types (Agency and Private Purpose Funds)

- (1) The Agency funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Kentucky Department of Education publication *Uniform Program of Accounting for School Activity Funds*.
- (2) The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Continued

Fayette County School District

June 30, 2014

Note B--Summary of Significant Accounting Policies--Continued

Basis of Accounting--The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-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.

The District adopted GASB statement 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which codified all applicable GASB, Financial Accounting Standards Board ("FASB"), and Accounting Principles Board opinions dated according to the title of the statement.

Effective July 1, 2013, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, established accounting and financial reporting standards that recognizes, as deferred outflows of resources and or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Revenues--Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are 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 sixty days of the fiscal year end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, occupational 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. Occupational tax revenues are not susceptible to accrual because generally they are not measurable until received in cash. Revenues from grants, entitlements and donations are 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, revenue from nonexchange transactions must also be available before it can be recognized.

When both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

Continued

Fayette County School District

June 30, 2014

Note B--Summary of Significant Accounting Policies--Continued

Unearned Revenue--Unearned 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.

Donated Commodities--The fair value of donated commodities received during the year is reported in the proprietary fund statement of revenues, expenses and changes in net position as an expense and as donated commodities revenue (nonoperating revenue).

Expenses/Expenditures--On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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.

Budgetary Process--The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the statement of revenues, expenditures and changes in fund balances – governmental funds.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by 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.

The budget for the Special Revenue Fund consists of the sum of each active grant's budget. Large variances between budgeted and actual activity can occur because grants with little activity during the year will have their entire budget rolled up into the combined budget for all grants.

Cash and Cash Equivalents--The District considers the following to be cash equivalents: demand deposits, undeposited funds and money market funds with an original maturity of 90 days or less.

Inventories--On the District-wide financial statements inventories are stated at the lower of cost or market and are expensed when used. The Food Service Fund inventories use the specific identification method and the general fund inventories use the first-in, first-out method.

The Food Service Fund's inventories consist of food and supplies valued at cost, and U. S. Government commodities whose value is determined by the U. S. Department of Agriculture.

Continued

Fayette County School District

June 30, 2014

Note B--Summary of Significant Accounting Policies--Continued

In the governmental funds balance sheet, inventories in the General Fund are equally offset by a reserve which indicates they do not constitute "available spendable resources" even though they are a component of total assets.

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

The property tax rates assessed for the year ended June 30, 2014 were \$0.696 per \$100 valuation for real property and \$0.696 per \$100 valuation for business personal property. Motor vehicle tax was \$0.592 per \$100 valuation of motor vehicles.

The following is the District's property tax calendar:

<u>Date</u>	<u>Event</u>
January 1, year of levy	Assessment date
October 1, year of levy	Taxes levied
November 30, year of levy	2% discount allowed
December 31, year of levy	1% discount allowed
January 31, following year	Gross amount due
February 1, following year	Delinquent date, 1 1/2% interest added per month
April 1, following year	10% penalty added

The District levies a 3.0% utility tax on all businesses and households within Fayette County.

In addition, the District levies an occupational license tax of 0.5% on salaries, wages, commissions and other compensation to individuals for services performed or rendered within the County, and on the net profits of all businesses, professions or occupations from activities conducted within the County.

Investments--The Private Purpose Trust Funds record investments at their quoted market prices in the statement of fiduciary net position. All realized gains and losses in fair value are recorded in the statement of changes in fiduciary net position.

The Permanent Funds record investments at their quoted market prices in the governmental funds balance sheet. All realized gains and losses in fair value are recorded in the governmental funds statement of revenue, expenditures and changes in fund balances.

Continued

Fayette County School District

June 30, 2014

Note B--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 District-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the District-wide statement of net position and in the respective funds' financial statements.

All capital assets are recorded at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000 with the exception of technology purchases for which there is no threshold. This threshold was implemented on July 1, 2013. Improvements are capitalized while the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation is computed in the District-wide statement of activities and in the proprietary funds statement of revenues, expenses and changes in net position, using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
General equipment	7-15 years

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

Accrued Liabilities and Long-Term Obligations--All payables, accrued liabilities and long-term obligations are reported in the District-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

Continued

Fayette County School District

June 30, 2014

Note B--Summary of Significant Accounting Policies--Continued

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 financial resources. However, claims and judgments, capital leases, compensated absences 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, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. School building revenue 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--Under GASB Statement 54, fund balance is separated into five categories, as follows:

Nonspendable	Permanently nonspendable by decree of the donor, such as an endowment, or items which may not be used for another purpose, such as amounts used to prepay future expenses or already-purchased inventory on hand
Restricted	Legally restricted under federal or state law, bond authority, or grantor contract
Committed	Commitments passed by the Board
Assigned	Funds assigned to management priority including issued encumbrances
Unassigned	Funds available for future operations

Encumbrances are reported as a reservation of fund balance and are not reported as expenditures until incurred. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are appropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2014 in the governmental funds balance sheet.

Continued

Fayette County School District

June 30, 2014

Note B--Summary of Significant Accounting Policies--Continued

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

Operating Revenues and Expenses--Operating revenues are those revenues that are generated directly from the primary activity of the Proprietary Funds. For the District, those revenues are primarily charges for meals provided at the various schools.

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent Events--In preparing these financial statements, management of the District has evaluated events and transactions for potential recognition or disclosure through November 14, 2014, the date the financial statements were available to be issued.

Note C--Cash and Cash Equivalents

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may be lost. The District's cash deposits are covered by Federal Depository Insurance Corporation up to \$250,000 per financial institution, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

Note D--Investments

During the year, the District invested excess cash into short-term repurchase agreements, collateralized by U.S. Government securities. These investments are either insured or securities are held by the pledging financial institution's trust department in the District's name.

Statutes authorize the District to invest in the following:

- (1) Obligations of the United States Government and of its agencies and instrumentalities, repurchase agreements and specially approved AAA rated corporate bonds;
- (2) Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and municipalities;

Continued

Fayette County School District

June 30, 2014

Note D--Investments--Continued

- (3) Any savings and loan associations insured by an agency of the United States Government up to the amount insured;
- (4) Interest bearing deposits in national and state banks chartered in Kentucky and insured by an agency of the United States Government up to the amount so insured, and in larger amounts providing such bank shall pledge securities having a current quoted market value at least equal to any uninsured deposits.

Financial instruments which potentially subject the District to concentrations of credit risk consist principally of temporary cash investments, taxes receivable and receivables from federal and state governments.

As of June 30, 2014, the District had the following investments:

<u>Fund Type</u>	<u>Investment Type</u>	<u>Fair Value</u>	<u>Moody's Rating</u>	<u>Weighted Average Maturity in Years</u>
Governmental	U.S. Treasury Notes	\$ 328,209	AAA	1.79
Fiduciary-Private Purpose Trust	Mutual Funds	<u>1,146,488</u>	A	N/A
		<u>\$ 1,474,697</u>		

GASB No. 40, *Deposits and Investment Risk Disclosures*, require the District to address the following risks related to its investments:

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 District or 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.

Concentration of Credit Risk--The District's investment policy places no limit on the amount the District may invest in any one issuer.

Fayette County School District

June 30, 2014

Note E--Receivables

The District recognizes revenues as receivable when they are measurable and receipt is certain. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. While the District receives revenues from many different sources throughout the year, the accounts and grants receivable from outside sources may be grouped into the following categories:

Accounts and grants receivable from outside sources	Governmental Funds	Proprietary Funds	Total
Accounts receivable	\$ 4,342,436	\$ 460,752	\$ 4,803,188
Taxes receivable	10,468,286		10,468,286
Grants receivable	<u>6,234,459</u>		<u>6,234,459</u>
	<u>\$ 21,045,181</u>	<u>\$ 460,752</u>	<u>\$ 21,505,933</u>

Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables when qualifying expenditures are incurred.

Fayette County School District

June 30, 2014

Note F--Interfund Receivables and Payables

Each fund is a separate fiscal and accounting entity, and thus interfund transactions are recorded in each fund affected by a transaction. Interfund receivables and payables for the District arise generally from two types of transactions: 1) all funds are initially received into the General Fund, thus a payable and receivable are established in the appropriate funds; and 2) payments are made in some instances from a fund that does not have the legal liability for the expenditure, thus a payable from the fund having the legal liability is established at such time. All interfund receivables and payables have been eliminated on the District-wide statement of net position.

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	KETS Match	\$ 552,523
Operating	General	Construction	Construction	1,147,000
Operating	General	Debt Service	Premium	61,273
Operating	Capital Outlay	Construction	Construction	1,000,001
Operating	Capital Outlay	Debt Service	Debt Service	2,497,016
Operating	Building Fund	Debt Service	Debt Service	25,648,896
Operating	Building Fund	Construction	Construction	3,507,487
Operating	Special Revenue	General Fund	Indirect Costs	1,088,408

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2014

Note G--Capital Assets

Capital asset activity for the year ended June 30, 2014 consisted of the following:

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
<u>Governmental Activities</u>				
Land	\$ 6,843,942	\$ 1,087,000		\$ 7,930,942
Buildings and improvements	523,950,935	56,375,303		580,326,238
Technology equipment	23,870,140	1,242,001	\$ (1,571,917)	23,540,224
Vehicles	21,046,810	1,453,664	(210,743)	22,289,731
General equipment	5,620,766	66,150	(301,974)	5,384,942
Construction in progress	107,450,159	63,301,467	(54,787,652)	115,963,974
	688,782,752	123,525,585	(56,872,286)	755,436,051
Less accumulated depreciation	<u>(221,338,577)</u>	<u>(19,295,666)</u>	<u>1,864,844</u>	<u>(238,769,399)</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 467,444,175</u>	<u>\$ 104,229,919</u>	<u>\$ (55,007,442)</u>	<u>\$ 516,666,652</u>
<u>Business-Type Activities</u>				
Food service equipment	\$ 7,756,317	\$ 696,919	\$ (360,724)	\$ 8,092,512
Technology equipment	147,421	13,131	(17,686)	142,866
	7,903,738	710,050	(378,410)	8,235,378
Less accumulated depreciation	<u>(3,977,972)</u>	<u>(606,855)</u>	<u>320,420</u>	<u>(4,264,407)</u>
Total Business-Type Activities Capital Assets, Net	<u>\$ 3,925,766</u>	<u>\$ 103,195</u>	<u>\$ (57,990)</u>	<u>\$ 3,970,971</u>

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2014

Note G--Capital Assets--Continued

Depreciation expense for the year ended June 30, 2014 for governmental activities by function is summarized below:

<u>Function</u>	<u>Amount</u>
Instructional	\$ 18,588,766
Instruction student support	423
District administration	3,292
Plant operations and maintenance	8,147
School administration	695,038
	<u>\$ 19,295,666</u>

Note H--Capital Lease Obligations

The following is a schedule by years of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2014:

<u>Year Ending June 30</u>	<u>Amount</u>
2015	\$ 1,449,337
2016	1,251,392
2017	1,021,038
2018	863,016
2019 and Thereafter	<u>2,606,947</u>
Total minimum lease payments	7,191,730
Less amount representing interest	<u>655,128</u>
Present value of net minimum lease payments	6,536,602
Capital lease obligations, due within one year	<u>1,278,002</u>
Capital Lease Obligations, Due After One Year	<u><u>\$ 5,258,600</u></u>

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2014

Note H--Capital Lease Obligations--Continued

The following is an analysis of the assets under capital lease obligations:

<u>Class of Property</u>	Net Book Value as of June 30, 2014
Buses	<u>\$ 9,769,911</u>

Note I--School Building Revenue Bonds

The various issues of school building revenue bonds are as follows:

<u>Issue Date</u>	<u>Original Proceeds</u>	<u>Interest Rates</u>	<u>Balance June 30, 2014</u>
2004A	13,505,000	2.500% - 3.750%	\$ 5,030,000
2004B	15,160,000	2.500% - 4.000%	6,525,000
2005A	52,710,000	3.500% - 5.000%	1,490,000
2005B	25,735,000	3.000% - 4.000%	18,970,000
2005C	13,065,000	3.500% - 4.000%	9,575,000
2007A	36,450,000	4.375% - 4.500%	35,020,000
2009B	8,955,000	1.000% - 3.250%	5,200,000
2010A	13,440,000	1.000% - 3.500%	11,130,000
2010B	43,175,000	0.700% - 5.300%	37,845,000
2011A	52,175,000	2.500% - 5.000%	46,575,000
2011B	16,590,000	2.000% - 2.375%	16,170,000
2012A	42,310,000	3.000% - 4.000%	41,980,000
2012B	56,730,000	2.000% - 3.250%	52,345,000
2013A	49,270,000	2.000% - 5.000%	49,270,000
2014A	30,260,000	2.000% - 5.000%	30,045,000
		School Building Revenue Bonds	<u>\$ 367,170,000</u>

Continued

Fayette County School District

June 30, 2014

Note I--School Building Revenue Bonds--Continued

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund), is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The school building revenue bonds are collateralized primarily by the educational facilities constructed by the Corporation with bond proceeds.

In connection with the school building revenue bonds issued after May 1, 1996, the District entered into "participation agreements" with the Kentucky School Facilities Construction Commission (the "Commission"). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The Commission will remit a stated amount of bond principal and interest payments annually, subject to biennial approval by the Kentucky General Assembly. Should approval not be received in future periods, the District remains obligated for the full amount of the bond principal and interest payments.

The bonds may be called prior to maturity by the District 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, for debt service as of June 30, 2014 (principal and interest) are as follows:

During the year ended June 30, 2014, the District made principal payments of \$17,405,000.

	<u>Principal</u>	<u>Interest</u>	<u>Commission Participation</u>	<u>District's Portion</u>
2015	\$ 17,905,000	\$ 14,430,455	\$ 2,361,470	\$ 29,973,985
2016	18,700,000	13,848,749	2,361,468	30,187,281
2017	20,050,000	13,187,499	2,361,469	30,876,030
2018	20,870,000	12,466,605	2,361,469	30,975,136
2019	21,625,000	11,690,960	2,346,596	30,969,364
2020-2024	117,195,000	45,854,179	11,009,961	152,039,218
2025-2029	107,075,000	21,449,908	7,046,874	121,478,034
2030-2033	39,365,000	4,022,345	2,055,423	41,331,922
2034	4,385,000	109,625	111,116	4,383,509
	<u>\$ 367,170,000</u>	<u>\$ 137,060,325</u>	<u>\$ 32,015,846</u>	<u>\$ 472,214,479</u>

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2014

Note I--School Building Revenue Bonds--Continued

During fiscal year 2014, School Building Refunding Revenue Bond Series 2014A was approved on February 24, 2014, sold on February 28, 2014 and delivered on March 31, 2014 in the amount of \$30,260,000 for purposes of calling and repaying Series 2009A Build America Bonds maturing June 1, 2015 and thereafter at a total price of \$33,353,646, representing \$32,805,000 of principal and \$548,646 of gross interest. The District will realize an economic gain of over \$1.76 million in debt service savings.

Note J--Accrued Sick Leave

In accordance with generally accepted governmental accounting principles, the District has recorded accrued sick leave as a liability in the District-wide statement of net position, but not on the governmental funds financial statements since the majority of these liabilities are not expected to be liquidated with current financial resources. Accrued sick leave, which has no maximum accumulation, is payable upon retirement at 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 District's past experience of making termination payments.

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2014

Note K--Long-Term Liabilities

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2014 is as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Governmental Activities</u>				
School building revenue bonds	\$ 385,909,045	\$ 30,260,000	\$ 48,999,045	\$ 367,170,000
Capital lease obligations	6,382,401	1,486,037	1,331,836	6,536,602
Estimated liability for workers' compensation benefits	257,265		257,265	-
Accrued sick leave	<u>5,094,625</u>	<u>2,917,693</u>	<u>2,217,828</u>	<u>5,794,490</u>
	<u>\$ 397,643,336</u>	<u>\$ 34,663,730</u>	<u>\$ 52,805,974</u>	<u>\$ 379,501,092</u>

Note L--On-Behalf Payments

For the year ended June 30, 2014, total payments of \$70,548,372 were made for life insurance, health insurance, Kentucky Teachers Retirement System ("KTRS") matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expenditure/expense accounts on the statement of activities and on the statement of revenues, expenditures and changes in fund balances. These revenues and expenditures are not budgeted by the District.

Note M--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.

Continued

Fayette County School District

June 30, 2014

Note M--Contingencies--Continued

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress or 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 N--Litigation

The District is subject to various 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 financial statements as a result of the litigation presently in progress.

Note O--Risk Management

The District is exposed to various forms of loss of assets associated with perils such as fire, personal liability, theft, vehicular accidents, errors and omissions, and fiduciary responsibility. Each of these risk areas is addressed through the purchase of insurance and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The District has purchased certain coverage which is retrospectively rated, including workers' compensation insurance.

Starting in 1979, the Fayette County Board of Education participated in Kentucky School Boards Insurance Trust ("KSBIT"), a Kentucky School Boards Association ("KSBA") program. KSBIT was created in 1978 to provide insurance to Kentucky school districts through self-insured pools that provided workers compensation, property and liability coverage. The organization stopped offering insurance coverage in 2013 as the program had incurred an estimated \$60 million deficit, on 116,000 claims and over \$400 million in claims expenses. All of Kentucky's public school districts and other education related entities that participated in KSBIT are responsible for eliminating the deficit. The Kentucky Department of Insurance ("DOI") has taken over the KSBIT insurance programs and has placed them into rehabilitation to collect money owed by former participants. An assessment plan and collection methodology has processed through Franklin Circuit Court with some modifications being made by the judge and there is additional litigation that could impact the final amount owed by all members. The rehabilitator has invoiced all former members for workers compensation liabilities dating to 1990 and liability liabilities dating back to 2008.

Continued

Fayette County School District

June 30, 2014

Note O--Risk Management--Continued

Fayette County's workers compensation assessment is \$2,537,694 and its property and liability assessment is \$583,416. The District has taken a three-year payment plan on the property and liability assessment and a six-year repayment plan on the workers' compensation assessment as there are no financing costs associated with these options. The repayment plan requires 40% down with the workers compensation balance being paid in equal payments over five remaining years, and the property and liability payment over two remaining years:

Year 1 - \$867,789
Year 2 - \$555,678
Year 3 - \$555,678
Year 4 - \$380,674
Year 5 - \$380,674
Year 6 - \$380,674

There is pending litigation for the repayment of a \$8,000,000 surplus note to Kentucky League of Cities which may result in additional costs to the District. That additional cost is estimated at \$500,000. Court orders and other information are available at www.ksbit-wc.com. The District will budget for these payments annually and pay the remaining balance on or before August 31st of each year.

Note P--Retirement Plans

Classified Employees--Classified employees (substantially all full-time District employees other than certified employees) are covered by the County Employees Retirement Systems ("CERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. CERS provides retirement, death and disability benefits to Plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State Legislature.

Under the provisions of the Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

Plan members are required to contribute 5% of their annual covered compensation and the District is required to contribute at an actuarially determined rate. All new members hired after August 31, 2008 are required to contribute 6% at an actuarially determined rate. The current rate for employer match is 18.89% of the employee's total covered compensation. The contribution requirements of Plan members and the District are established and may be amended by the Kentucky Retirement System's Board of Trustees. The District's contributions to CERS for the years ended June 30, 2014, 2013, and 2012 were approximately \$10,945,000, \$11,320,000 and \$10,513,000, respectively, equal to the required contribution for that year.

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2014

Note P--Retirement Plans--Continued

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Certified Employees--Certified employees are covered by the Kentucky Teachers' Retirement System ("KTRS"), a cost-sharing multiple-employer defined benefit plan. KTRS provides retirement, death and disability benefits to Plan members. Cost of living increases are 1.5% annually. Any benefit amendments must be authorized by the State Legislature.

Plan members are required to contribute 11.355% of their annual covered compensation. The Commonwealth of Kentucky provides matching contributions as required by Kentucky Revised Statutes 165.540 and 161.550. The payments made by the Commonwealth of Kentucky on behalf of the District's certified employees, amounting to \$27,659,642, are reflected in the accompanying financial statements as both revenues and expenses/expenditures. The Commonwealth of Kentucky requires payments for federally funded employees to be made by such federal funds; for the fiscal year ended June 30, 2014, this funding amounted to approximately \$1,667,000.

KTRS issues a publicly available financial report that includes financial statements and required supplementary information on the Plan. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601.

Retirement Plan--The District makes available 401(k) and 403(b) defined contribution pension plans for all employees. Employees are allowed to contribute to the Plans up to the Internal Revenue Code maximum allowable amount. The District does not contribute to the Plans.

Note Q--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 and 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 its financial statements.

Note R--Post-Employment Health Care Benefits

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

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2014

Note S--Commitments

As of June 30, 2014, the District had outstanding commitments for construction totaling \$166,125,705.

Note T--COBRA

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

Note U--Operating Leases

The District has a piece of equipment under an operating lease, which expires June 30, 2015. Rent expense for the year ended June 30, 2014 was \$594,558.

Note V--Effects of Future Accounting Pronouncements

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will require that unfunded portions of future pension benefit obligations shall be recorded as a liability of governments. This pronouncement will be mandatory for fiscal periods beginning after June 15, 2015. Although the data is not available from the Kentucky Teachers Retirement System or the County Employees Retirement System at this time, we believe that this implementation will have a material effect on future financial statements.

Required Supplementary Information

Budgetary Comparison Information

Schedule of Revenues and Expenditures - Budget and Actual
General Fund

Fayette County School District

Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources				
Property taxes	\$ 147,781,018	\$ 151,137,413	\$ 149,638,315	\$ (1,499,098)
Motor vehicle taxes	10,164,091	10,009,239	10,567,158	557,919
Utility taxes	19,919,008	22,503,605	22,764,924	261,319
Occupational license tax	30,488,883	31,836,402	33,534,785	1,698,383
Earnings on investments	200,000	165,270	156,325	(8,945)
Other sources	3,654,736	7,463,236	5,714,874	(1,748,362)
State sources				
SEEK	86,314,126	88,289,863	88,289,863	
Other state revenues	1,059,408	1,059,408	68,209,216	67,149,808
Total Revenues	299,581,270	312,464,436	378,875,460	66,411,024
Expenditures				
Instruction	177,621,029	186,539,872	238,521,546	(51,981,674)
Support services				
Student	18,808,788	17,966,270	20,443,899	(2,477,629)
Instruction staff	15,337,923	15,298,646	16,878,899	(1,580,253)
District administration	4,804,979	5,833,677	6,661,834	(828,157)
School administration	18,438,296	19,589,002	21,858,553	(2,269,551)
Business	17,725,324	22,963,149	22,987,011	(23,862)
Plant operation and maintenance	34,515,343	38,775,854	39,658,701	(882,847)
Student transportation	18,427,371	20,229,704	21,919,519	(1,689,815)
Community service			258	(258)
Debt service	1,463,171	1,509,377	1,509,377	
Total Expenditures	307,142,224	328,705,551	390,439,597	(61,734,046)
Revenues in Excess of (Less Than) Expenditures	(7,560,954)	(16,241,115)	(11,564,137)	4,676,978
Other Financing Sources (Uses)				
Proceeds from sale of fixed assets	75,000	75,000	14,262	(60,738)
Proceeds from capital leases			1,486,037	1,486,037
Operating transfer in	1,500,000	1,247,001	1,088,408	(158,593)
Operating transfers out	(600,000)	(1,760,796)	(1,760,796)	
Contingency	(21,950,000)	(19,767,634)		19,767,634
Total Other Financing Sources (Uses)	(20,975,000)	(20,206,429)	827,911	21,034,340
Revenues and Other Financing Sources in Excess of (Less Than) Expenditures and Other Financing Uses	\$ (28,535,954)	\$ (36,447,544)	\$ (10,736,226)	\$ 25,711,318

Basis of Budgeting--The District accounts for and budgets its operations accordingly to Generally Accepted Accounting Principles.

See page 47 for explanation of significant budget variances.

See Accompanying Independent Auditors' Report

Schedule of Revenues and Expenditures - Budget and Actual
 Special Revenue Fund

Fayette County School District

Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
State sources - Other state revenues	\$ 8,717,179	\$ 10,084,659	\$ 10,848,194	\$ (763,535)
Governmental grants	20,771,065	20,354,080	22,288,039	(1,933,959)
Other sources	316,209	1,056,235	2,260,387	(1,204,152)
Total Revenues	29,804,453	31,494,974	35,396,620	(3,901,646)
Expenditures				
Instruction	21,533,396	21,795,010	23,641,219	(1,846,209)
Support services				
Student	2,186,737	2,502,143	2,534,513	(32,370)
Instruction staff	1,464,575	2,166,608	2,164,895	1,713
District administration	8,019	19,760	24,318	(4,558)
School administration	1,224,176	1,240,870	1,366,724	(125,854)
Business	527,953	657,578	1,668,057	(1,010,479)
Plant operation and maintenance	99,256	120,106	119,610	496
Student transportation			12,904	(12,904)
Food Service			26,581	(26,581)
Community service activities	2,214,683	2,472,275	3,301,914	(829,639)
Total Expenditures	29,258,795	30,974,350	34,860,735	(3,886,385)
Revenues in Excess of (Less Than) Expenditures	545,658	520,624	535,885	15,261
Other Financing Sources (Uses)				
Operating transfers in	568,305	552,523	552,523	
Operating transfer out	(1,113,963)	(1,073,147)	(1,088,408)	(15,261)
Total Financing Sources (Uses)	(545,658)	(520,624)	(535,885)	(15,261)
Revenues and Other Financing Sources in Excess of (Less Than) Expenditures and Other Financing Uses	\$	\$	\$	\$

Basis of Budgeting--The District accounts for and budgets its operations accordingly to Generally Accepted Accounting Principles.

See page 47 for explanation of significant budget variances.

See Accompanying Independent Auditors' Report

Schedule of Revenues and Expenditures – Budget and Actual

Fayette County School District

Year Ended June 30, 2014

Explanation of Significant Budget Variances

General Fund

The Commonwealth of Kentucky pays certain employee benefit expenses, including health insurance and the employer match for the Kentucky Teachers Retirement Systems, on-behalf of its districts. Districts have the option to budget these expenses for financial statement presentation. For the 2013-2014 fiscal years, these expenses were not budgeted and totaled \$71 million. This amount accounts for the revenue and expenditure overages in each expenditure category in the General Fund. On the expenditure side, beyond the effects of on-behalf payments, expenditures that increased include Instruction, District Administration Support, School Administration Support and Student Transportation.

Special Revenue Fund

Most budget variances in this fund occur as a result of the difficulties in preparing an annual budget for grants that may cover periods of twenty-four months or longer, where the budget may have been recognized in one year and expenditures continue into future years. This is most noticeable in governmental grants revenues and instruction expenditures. In these categories, the District had multiple-year grants that were significantly reduced for current year funding. For these grants, the District continues to spend the existing grant, which was budgeted in the annual budget in a previous year, with no or a reduced budget to compare to in the current year. The District utilizes month to date project reports to review and analyze the true effect of the Special Revenue Fund related to the multi-year grant project effect.

See Accompanying Independent Auditors' Report

Combining Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

Fayette County School District

June 30, 2014

	Permanent Funds					Total Nonmajor Governmental Funds
	SEEK Capital Outlay Fund	Anthony Dey Fund	Lexington Industrial School Fund	N. Isabel Schmidt Fund		
Assets						
Cash and cash equivalents	\$ 927,899	\$ 48,118	\$ 5,470	\$ 206,518	\$ 1,215,423	
Investments				328,209	328,209	
Accounts receivable - taxes	97,384				97,384	
Total Assets	<u>\$ 1,025,283</u>	<u>\$ 48,118</u>	<u>\$ 5,470</u>	<u>\$ 534,727</u>	<u>\$ 1,641,016</u>	
Fund Balances						
Restricted	\$ 1,025,283	\$ 48,118	\$ 5,470	\$ 534,727	\$ 1,641,016	
Total Fund Balances	<u>\$ 1,025,283</u>	<u>\$ 48,118</u>	<u>\$ 5,470</u>	<u>\$ 534,727</u>	<u>\$ 1,641,016</u>	

See Accompanying Independent Auditors' Report

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Nonmajor Governmental Funds

Fayette County School District

Year Ended June, 30 2014

	Building Fund	SEEK Capital Outlay Fund	Permanent Funds			Total Nonmajor Governmental Funds
			Anthony Dey Fund	Lexington Industrial School Fund	N. Isabel Schmidt Fund	
Revenues						
Local sources						
Property taxes	\$ 26,808,276					\$ 26,808,276
Motor vehicle taxes	947,714					947,714
State sources						
SEEK program		\$ 3,521,343				3,521,343
Earnings on investments	18,188	3,092	\$ 169	\$ 36	\$ (4,893)	16,592
Other sources			7,091	4,090	4,140	15,321
Total Revenues	27,774,178	3,524,435	7,260	4,126	(753)	31,309,246
Expenditures						
Community service activities			1,864	6,231	2,553	10,648
Revenues in Excess of (Less Than) Expenditures	27,774,178	3,524,435	5,396	(2,105)	(3,306)	31,298,598
Other Financing Uses						
Operating transfers out	(29,156,383)	(3,497,018)				(32,653,401)
Net Change in Fund Balances	(1,382,205)	27,417	5,396	(2,105)	(3,306)	(1,354,803)
Fund Balances,						
Beginning of Year	2,407,488	1	42,722	7,575	538,033	2,995,819
Fund Balances, End of Year	\$ 1,025,283	\$ 27,418	\$ 48,118	\$ 5,470	\$ 534,727	\$ 1,641,016

See Accompanying Independent Auditors' Report

Reports Required by the Single Audit Act

**Independent Auditors' 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 Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed In Accordance with
*Government Auditing Standards***

Members of the Board of Education
Fayette County School District
Lexington, Kentucky

We have audited, in accordance with the 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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fayette County School District (the "District") as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 14, 2014.

Internal Control Over Financial Reporting

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

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

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

We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies (2014-1 through 2014-3).

Compliance and Other Matters

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

In addition, the results of our tests disclosed no material instances of noncompliance with specific state statutes or regulations identified in the *Kentucky Public School District's Audit Contract and Requirements* prescribed by the Kentucky State Committee for School District Audits.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

STROMMAN AND COMPANY

Louisville, Kentucky
November 14, 2014

**Independent Auditors' Report on Compliance
For Each Major Program and
on Internal Control Over Compliance
Required by OMB Circular A-133**

Strothman and Company
Certified Public Accountants and Advisors
1600 Waterfront Plaza
325 West Main Street
Louisville, KY 40202
502 585 1600



**Independent Auditors' Report on Compliance
For Each Major Program and on
Internal Control Over Compliance
Required by OMB Circular A-133**

Members of the Board of Education
Fayette County School District
Lexington, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Fayette County School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the Summary of Audit Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the 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 the 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 the District's internal control over compliance.

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

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

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

STROTHMAN AND COMPANY

Louisville, Kentucky
November 14, 2014

Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards

Fayette County School District

Year Ended June 30, 2014

CFDA Name	CFDA Number	Pass Through Number	Actual Expenses
U.S. Department of Education			
Pass-through from:			
KY Department of Education			
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	33-540-3133	\$ 6,506
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	33-540-3133T	16
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	33-540-3141	20,480
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	33-540-3143T	2,269
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	33-540-3144	122,400
			151,671
Education for Homeless Children and Youth	84.196A	33-540-3163	21,915
Education for Homeless Children and Youth	84.196A	33-540-3164	17,720
			39,635
Migrant Education_State Grant Program	84.011A	33-540-3112S	24,729
Migrant Education_State Grant Program	84.011A	33-540-3113	108,741
Migrant Education_State Grant Program	84.011A	33-540-3113S	4,719
Migrant Education_State Grant Program	84.011A	33-540-3114	195,303
			333,492
Title I Grants to Local Educational Agencies	84.010A	33-540-3102D	6,686
Title I Grants to Local Educational Agencies	84.010A	33-540-3102T	10,488
Title I Grants to Local Educational Agencies	84.010A	33-540-3103	800,448
Title I Grants to Local Educational Agencies	84.010A	33-540-3103M	42,209
Title I Grants to Local Educational Agencies	84.010A	33-540-3104	7,317,383
Title I Grants to Local Educational Agencies	84.010A	33-540-3104M	1,696,504
Title I Grants to Local Educational Agencies	84.010	33-540-3202	39,021
Title I Grants to Local Educational Agencies	84.010	33-540-3203	41,984
Title I Grants to Local Educational Agencies	84.010	33-540-3203E	3,998
Title I Grants to Local Educational Agencies	84.010	33-540-3204	47,533
			10,006,254
English Language Acquisition Grants	84.365A	33-540-3452	114,805
English Language Acquisition Grants	84.365A	33-540-3453	451,972
English Language Acquisition Grants	84.365A	33-540-3453	20,184
			586,961
Career and Technical Education -- Basic Grants to States	84.048	33-540-3483	10,073
Career and Technical Education -- Basic Grants to States	84.048	33-540-3483A	21,229
Career and Technical Education -- Basic Grants to States	84.048	33-540-3484	383,037
Career and Technical Education -- Basic Grants to States	84.048	33-540-3484A	9
Career and Technical Education -- Basic Grants to States	84.048	33-540-3594A	17,222
			431,570

Continued

Schedule of Expenditures of Federal Awards--Continued

Fayette County School District

Year Ended June 30, 2014

<u>CFDA Name</u>	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Actual Expenses</u>
School Improvement Grants	84.377A	33-540-4600B	4,534
School Improvement Grants	84.377A	33-540-4600C	70,963
School Improvement Grants	84.377A	33-540-5600B	441
			<u>75,938</u>
Improving Teacher Quality State Grants	84.367A	33-540-4012	303
Improving Teacher Quality State Grants	84.367A	33-540-4013	86,147
Improving Teacher Quality State Grants	84.367A	33-540-4014	1,350,973
			<u>1,437,423</u>
Fund for the Improvement of Education	84.215E	33-540-5321	30,263
Fund for the Improvement of Education	84.215K	33-540-5660K	47,663
Twenty-First Century Community Learning Centers	84.287	33-540-5502	34,722
Twenty-First Century Community Learning Centers	84.287	33-540-5502J	3,000
Twenty-First Century Community Learning Centers	84.287	33-540-5502M	13,264
Twenty-First Century Community Learning Centers	84.287	33-540-5503	173,478
Twenty-First Century Community Learning Centers	84.287	33-540-5503M	55,467
Twenty-First Century Community Learning Centers	84.287	33-540-5503S	14,900
Twenty-First Century Community Learning Centers	84.287	33-540-5504	21,524
			<u>316,355</u>
Language Grant Program	12.900	33-540-3443	39,859
Language Grant Program	12.900	33-540-3444	61,268
			<u>101,127</u>
Race to the Top	84.413A	33-540-4521	166,175
Special Education Cluster			
Special Education_Grants to States	84.027A	33-540-3372C	2,481
Special Education_Grants to States	84.027A	33-540-3372P	177
Special Education_Grants to States	84.027A	33-540-3373	433,023
Special Education_Grants to States	84.027A	33-540-3373C	889,166
Special Education_Grants to States	84.027A	33-540-3373P	12,678
Special Education_Grants to States	84.027A	33-540-3374	6,714,230
Special Education_Grants to States	84.027A	33-540-3374P	104,784
Special Education_Preschool Grants	84.173A	33-540-3432	9
Special Education_Preschool Grants	84.173A	33-540-3432C	2,045
Special Education_Preschool Grants	84.173A	33-540-3433	13,510
Special Education_Preschool Grants	84.173A	33-540-3433C	299
Special Education_Preschool Grants	84.173A	33-540-3433P	5,176
Special Education_Preschool Grants	84.173A	33-540-3434	161,361
Special Education_Preschool Grants	84.173A	33-540-3434P	1,919
			<u>8,340,858</u>
			<u>22,065,385</u>
Total Pass-through from KY Department of Education			22,065,385

Continued

Schedule of Expenditures of Federal Awards--Continued

Fayette County School District

Year Ended June 30, 2014

CFDA Name	CFDA Number	Pass Through Number	Actual Expenses
U.S. Department of Defense			
ROTC Language and Culture Training Grants	12.357	33-540-5043	21,399
 U.S. Department of Agriculture			
National School Breakfast Program	10.553	034-165-999-0A	2,845,585
National School Lunch Program	10.555	034-165-999-0A	9,059,458
Fresh Fruit and Vegetable Program	10.582	12-3539-0-1-605	<u>168,783</u>
Total U.S. Department of Agriculture			12,073,826
 U.S. Department of Health and Human Services			
Refugee and Entrant Assistance_Discretionary Grants	93.576	33-540-4203	6,790
Refugee and Entrant Assistance_Discretionary Grants	93.576	33-5404204	<u>12,481</u>
Total U.S. Department of Health and Human Services			19,271
 U.S. Department of Justice Bureau of Justice Assistance			
Project Safe Neighborhoods	16.609	33-540-0PS4	12,798
Bulletproof Vest Partnership Program	16.607	33-540-0BV4	<u>5,974</u>
Total U.S. Department of Justice Bureau of Justice Assistance			18,772
 Environmental Protection Agency			
Environmental Education Grants	66.951	33-540-0CP4	<u>4,848</u>
Total Expenditures of Federal Awards			<u>\$ 34,203,501</u>

See Notes to Schedule of Expenditures of Federal Awards

Notes to Schedule of Expenditures of Federal Awards

Fayette County School District

June 30, 2014

Note A--Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Fayette 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 present in this Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note B--Food Distribution

Nonmonetary assistance totaling \$1,062,828 is reported in the Schedule at fair value of the commodities received as determined by the United States Department of Agriculture. The District no longer maintains a separate commodities inventory due to changes in program regulations.

Note C--Cluster Programs

The following CFDA numbers are considered cluster programs:

U.S. Department of Education

Special Education Cluster (IDEA)

Special Education--Grants to States (IDEA, Part B)	84.027
Special Education--Preschool Grants (IDEA Preschool)	84.173

U.S. Department of Agriculture

Child Nutrition Cluster

National School Breakfast Program (NSBP)	10.553
National School Lunch Program (NSLP)	10.555
Special Milk Program for Children (SMP)	10.556
Summer Food Service Program for Children (SFSPC)	10.559

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Fayette County School District

Year Ended June 30, 2014

Section I – Summary of Audit Results

1. The Independent Auditors' Report expresses an unmodified opinion on the financial statements of the Fayette County School District (the "District").
2. Three significant deficiencies relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported.
5. The auditors' report on compliance for the major federal programs of the District expresses an unmodified opinion.
6. There are no findings to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>
Title I, Part A Cluster Title I Grants to Local Educational Agencies	84.010 & 84.010A

8. The threshold used for distinguishing between Type A and B programs was \$1,026,105.
9. The District qualified as a low risk auditee.

Continued

Schedule of Findings and Questioned Costs--Continued

Fayette County School District

Year Ended June 30, 2014

Section II--Findings – Financial Statement Audit

Item 2014-01 – Lack of Oversight over School Food Service Accounting

Condition and Criteria: The Fayette County School District (the "District") Food Service Department's financial activity is recorded on a separate accounting system outside of the MUNIS Financial Management Software ("MUNIS"). Summary financial data is then input into MUNIS. All other financial activity of the District is recorded within MUNIS. The Kentucky Department of Education ("KDE") has mandated that MUNIS be used by all school districts in the Commonwealth.

Cause: The District's Food Service Department has decided to use a separate accounting system.

Effect: The Food Service Department is not using the same system as the rest of the District. The District's Financial Services Department does not have access to this separate system, which makes its responsibility for financial oversight difficult. This also raises issues of segregation of duties in that the Financial Services Department cannot perform a proper supervisory review of the Food Service accounting records.

Recommendation: We recommend that the Food Service Department implement the MUNIS system. If this is not feasible, we recommend that a way be found for the existing Food Service Department accounting system to be able to load detailed transaction data into the MUNIS system.

Management's Response: Management agrees with this comment. Upon receiving the management comment in November for the 2013 fiscal year audit, Financial Services began collaboratively meeting and planning the transition with food service with consultation from our internal auditors to assure compliance. Based on these meetings and planning, Food Service and Financial Services started a pilot program with five food service vendors in March of 2014. We implemented the requisition/purchase orders and accounts payable batch payment/scanning with these five food service vendors.

To be diligent in our process related to this transition, we used these five vendors to work out any kinks, questions or concerns that we encountered during this transition. All travel from the food service department was also implemented to go through financial services first for review, and then sent back to food service to process for payment. Financial Services met monthly with Food Service for a few months to discuss any concerns/questions or issues that came up during this pilot phase. As of July 1, 2014, Food Service is fully using the MUNIS requisition/purchase order and accounts payable module for all vendors. During fiscal year 2015, we will also start the process of implementing the accounts receivable module and other food service reports if applicable. We plan to have all processes fully implemented by July 1, 2015 for better monitoring, transparency, and oversight.

Continued

Schedule of Findings and Questioned Costs--Continued

Fayette County School District

Year Ended June 30, 2014

Section II--Findings – Financial Statement Audit--Continued

Item 2014-02 – Budgeting Process Could Be Improved

Condition and Criteria: During our review of budgeted versus actual revenues and expenditures for the fiscal year ended June 30, 2014, we noted mathematical errors in the working and tentative budgets.

Cause: Lack of review and oversight of work performed by Department of Budget and Staffing Services personnel.

Effect: The budgets were not correct.

Recommendation: We recommend that the District evaluate the overall budgeting process in order to develop a process more useful in managing District resources in an effective and efficient manner.

Management's Response: Management agrees with this comment and we have already begun reviewing current procedures to ensure adequate collaboration among departments and assure appropriate oversight of the budgeting process. Additionally, we are investigating MUNIS modules that can support budget document development. We expect implementation of new modules to eliminate potential for mathematical errors. Furthermore, the development of a 3 to 5 year Strategic Finance Plan will be complete in January, 2015 and will serve as a tool in annual budget development.

Item 2014-03 – Properly Record Accounts Receivable

Condition and Criteria: During our procedures over accounts receivable, we noted that management of the District was unable to reconcile accounts receivable for the year ended June 30, 2014.

Cause: The District did not record all accounts receivable journal entries at year end.

Effect: The accounts receivable reconciliation did not agree to the supporting detail.

Recommendation: We recommend that controls be implemented to ensure that all journal entries are recorded at year end, are properly evaluated and are allocated to the correct accounts/funds.

Management's Response: Management agrees with comment. To ensure that all journal entries in fund 2 are recorded at year end, management will implement several additional control activities to assure that any year end accounts receivable adjustments along with the supporting documentation will be reviewed and recorded appropriately.

Section III--Findings – Major Federal Programs Audit

There are no findings or questioned costs related to the major federal programs which are required to be reported in accordance with *OMB Circular A-133, Section 510(a)*.

Schedule of Prior Audit Findings

Schedule of Prior Audit Findings

Fayette County School District

Year Ended June 30, 2014

Section II--Findings – Financial Statement Audit

Item 2013-01 – Lack of Oversight over School Food Service Accounting

Condition and Criteria: The Fayette County School District (the "District") Food Service Department's financial activity is recorded on a separate accounting system outside of the MUNIS Financial Management Software ("MUNIS"). Summary financial data is then input into MUNIS. All other financial activity of the District is recorded within MUNIS. The Kentucky Department of Education ("KDE") has mandated that MUNIS be used by all school districts in the Commonwealth.

Cause: The District's Food Service Department has decided to use a separate accounting system.

Effect: The Food Service Department is not using the same system as the rest of the District. The District's Financial Services Department does not have access to this separate system, which makes its responsibility for financial oversight difficult. This also raises issues of segregation of duties in that the Financial Services Department cannot perform a proper supervisory review of the Food Service accounting records.

Recommendation: We recommend that the Food Service Department implement the MUNIS system. If this is not feasible, we recommend that a way be found for the existing Food Service Department accounting system to be able to load detailed transaction data into the MUNIS system.

Management's Response: Management agrees with this comment. Financial activity has been recorded on a separate accounting system outside of the MUNIS Financial Management Software. A separate system has been used due to the volume of invoices and the necessity to generate internal profit and loss statements, operations that MUNIS does not provide. The Food Services Department will begin researching and eventually implementing a process with the ability to upload more detailed transaction data into the MUNIS system. This will provide better continuity, transparency, and the additional monitoring oversight required in relation to these operations to the District and its stakeholders.

Current Status: Included in the current year as Item 2014-01

Item 2013-02 – Properly Record Accounts Payable

Condition and Criteria: During our procedures over accounts payable, we noted numerous invoices, mainly construction related, which were inadvertently left out of accounts payable at June 30, 2013.

Cause: An incorrect service date was used to record the invoices.

Effect: Accounts payable at year end were understated.

Recommendation: We recommend that controls be implemented to ensure that invoices are being properly evaluated.

Schedule of Prior Audit Findings--Continued

Fayette County School District

Year Ended June 30, 2014

Section II--Findings – Financial Statement Audit--Continued

Item 2013-02 – Properly Record Accounts Payable--continued

Management's Response: Management agrees with this comment. During this fiscal year, some duties were reassigned to new employees, these employees were not trained properly during the transition on invoice dates. Management will train accounts payable, tax and construction offices on how to enter proper service dates for applicable invoices. The proper dates to be used as invoice dates for travel reimbursements will be the date the actual service/professional development took place. Utility Bills will use the service dates or meter reading date, whichever is available. Tax office refunds will use the date signed off on by tax supervisor that show all documents have been received and reviewed and refund can be processed. Construction invoices will use the date the construction project was put into place as listed on the pay application during the month of July only. The remainder of the year will use the architect authorization date as the invoice date.

Current Status: This was not noted as an issue during the current year.

Item 2013-03 – Segregation of Duties

Condition and Criteria: Accounts payable clerks have rights in MUNIS to edit vendor info as well as set up vendors.

Cause: Although clerks do not set up new vendors, they have access in MUNIS to do so. They are responsible for vendor changes.

Effect: Clerks could potentially enter fraudulent invoices for payment.

Recommendation: We recommend that MUNIS rights for the accounts payable clerk be altered so that they cannot set up vendors. We also recommend that segregation of duties be implemented as much as administratively possible. When not possible we recommend an alternate review, such as a vendor audit, be performed.

Management's Response: Management agrees with this comment. In prior years the accounting software (MUNIS) would not allow permissions to divide up the area of updating and adding vendors, it was an all or nothing access. Our process allowed for accounts payable clerks to only update remit addresses but there were no permissions in place to prevent them from adding a new vendor if they wanted too. To mitigate this risk, we do have a process of reviewing an audit trail report to see if the accounts payable staff entered vendors or updated remit addresses without prior approval. As of November 1, 2013 Fayette County has just updated our accounting system to MUNIS version 10.3, which now allows management to break up these permissions in accounts payable through role based security. Effective November 5, 2013, all accounts payable clerks only have permissions in MUNIS to update remit addresses, they no longer have access to add, delete or update any vendor records.

Current Status: This was not noted as an issue during the current year.

Continued

Schedule of Prior Audit Findings--Continued

Fayette County School District

Year Ended June 30, 2014

Section III--Findings – Major Federal Programs Audit

There are no findings or questioned costs related to the major federal programs audit which are required to be reported in accordance with *OMB circular A-133, Section 510(a)*.