

District-wide and Fund Financial Statements  
and Required Supplementary Information

2014

**Fayette County School District**

June 30, 2014



District-wide and Fund Financial Statements  
and Required Supplementary Information

**Fayette County School District**

June 30, 2014

<b>Independent Auditors' Report</b> .....	1
<b>Management's Discussion and Analysis (Unaudited)</b> .....	4
<b>District-wide Financial Statements</b>	
Statement of Net Position .....	11
Statement of Activities .....	12
<b>Fund Financial Statements</b>	
Balance Sheet - Governmental Funds .....	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	15
Statement of Net Position - Proprietary Funds .....	18
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds .....	19
Statement of Cash Flows - Proprietary Funds .....	20
Statement of Fiduciary Net Position .....	21
Statement of Changes in Fiduciary Net Position .....	22
<b>Notes to Financial Statements</b> .....	23
<b>Required Supplementary Information</b>	
<b>Budgetary Comparison Information</b>	
Schedule of Revenues and Expenditures - Budget and Actual - General Fund .....	45
Schedule of Revenues and Expenditures - Budget and Actual - Special Revenue Fund .....	46
Schedule of Revenues and Expenditures – Budget and Actual - Explanation of Significant Budget Variances .....	47
<b>Combining Supplementary Information</b>	
Combining Balance Sheet - Nonmajor Governmental Funds .....	48
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds .....	49

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## Independent Auditors' Report



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

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the 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 accompanying 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; 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (Unaudited) on pages 4 through 10 and budgetary comparison information on pages 45 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining supplementary information on pages 48 and 49 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 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)**

<b>Revenues</b>	<b>2014</b>	<b>2013</b>	<b>Change</b>
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
<b>Total Revenues</b>	<b>\$ 448,749,801</b>	<b>\$ 431,935,006</b>	<b>\$ 16,814,795</b>

Continued

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

**Fayette County School District**

Year Ended June 30, 2014

**Table Two**  
**Total Expense Analysis (Governmental Activities)**

<b>Expenses</b>	<b>2014</b>	<b>2013</b>	<b>Change</b>
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)
<b>Total Expenses</b>	<b>\$ 459,005,344</b>	<b>\$ 443,731,979</b>	<b>\$ 15,273,365</b>

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 82<sup>nd</sup> percentile, ranking 62<sup>nd</sup> out of 174 schools districts and posting the 45<sup>th</sup> highest score in the state.
- Fayette County Public Schools ranked 32<sup>nd</sup> in the state among all non-independent school districts and 5<sup>th</sup> 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**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
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
<b>Total Assets</b>	<b>625,581,933</b>	<b>652,225,024</b>	<b>9,545,222</b>	<b>8,662,658</b>	<b>635,127,155</b>	<b>660,887,682</b>
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
<b>Total Liabilities</b>	<b>426,632,991</b>	<b>435,413,329</b>	<b>812,774</b>	<b>540,437</b>	<b>427,445,765</b>	<b>435,953,766</b>
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
<b>Total Net Position</b>	<b>\$ 205,704,009</b>	<b>\$ 216,811,695</b>	<b>\$ 8,732,448</b>	<b>\$ 8,122,221</b>	<b>\$ 214,436,457</b>	<b>\$ 224,933,916</b>

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
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
<b>Total Revenues</b>	<b>448,932,657</b>	<b>431,935,006</b>	<b>23,107,862</b>	<b>22,564,422</b>	<b>472,040,519</b>	<b>454,499,428</b>
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
<b>Total Expenses</b>	<b>459,005,344</b>	<b>443,731,979</b>	<b>22,497,635</b>	<b>22,442,663</b>	<b>481,502,979</b>	<b>466,174,642</b>
<b>Change in Net Position</b>	<b>\$ (10,072,687)</b>	<b>\$ (11,796,973)</b>	<b>\$ 610,227</b>	<b>\$ 121,759</b>	<b>\$ (9,462,460)</b>	<b>\$ (11,675,214)</b>

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](http://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

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
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
<b>Total Assets</b>	<b>625,581,933</b>	<b>9,545,222</b>	<b>635,127,155</b>
<b>Deferred Outflows of Resources</b>			
Debt Refunding	6,755,067		6,755,067
<b>Liabilities</b>			
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
<b>Total Liabilities</b>	<b>426,632,991</b>	<b>812,774</b>	<b>427,445,765</b>
<b>Net Position</b>			
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
<b>Total Net Position</b>	<b>\$ 205,704,009</b>	<b>\$ 8,732,448</b>	<b>\$ 214,436,457</b>

See Accompanying Notes to Financial Statements

Statement of Activities

Fayette County School District

Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities</b>					
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)
<b>Total Governmental Activities</b>	<b>459,005,344</b>	<b>167,535</b>	<b>23,293,636</b>		<b>(435,544,173)</b>
<b>Business-Type Activities</b>					
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
<b>Total Business-Type Activities</b>	<b>22,497,635</b>	<b>7,591,246</b>	<b>13,735,735</b>	<b>1,772,844</b>	<b>602,190</b>
<b>Total Activities</b>	<b>\$ 481,502,979</b>	<b>\$ 7,758,781</b>	<b>\$ 37,029,371</b>	<b>\$ 1,772,844</b>	<b>\$ (434,941,983)</b>
			<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
<b>Changes in Net Position</b>					
<b>Net Expenses</b>			\$ (435,544,173)	\$ 602,190	\$ (434,941,983)
<b>General Revenues</b>					
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
<b>Total General Revenues</b>			<b>425,471,486</b>	<b>8,037</b>	<b>425,479,523</b>
<b>Change in Net Position</b>			<b>(10,072,687)</b>	<b>610,227</b>	<b>(9,462,460)</b>
<b>Net Position, Beginning of Year</b>			<b>215,776,696</b>	<b>8,122,221</b>	<b>223,898,917</b>
<b>Net Position, End of Year</b>			<b>\$ 205,704,009</b>	<b>\$ 8,732,448</b>	<b>\$ 214,436,457</b>

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
<b>Assets</b>						
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
<b>Total Assets</b>	<b>\$ 52,206,893</b>	<b>\$ 6,234,459</b>	<b>\$ 146,240</b>	<b>\$ 51,645,437</b>	<b>\$ 1,641,016</b>	<b>\$ 111,874,045</b>
<b>Liabilities</b>						
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
<b>Total Liabilities</b>	<b>26,495,574</b>	<b>6,234,459</b>		<b>4,949,566</b>		<b>37,679,599</b>
<b>Fund Balances</b>						
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
<b>Total Fund Balances</b>	<b>25,711,319</b>		<b>146,240</b>	<b>46,695,871</b>	<b>1,641,016</b>	<b>74,194,446</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 52,206,893</b>	<b>\$ 6,234,459</b>	<b>\$ 146,240</b>	<b>\$ 51,645,437</b>	<b>\$ 1,641,016</b>	<b>\$ 111,874,045</b>

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>
<b>Net Position of Governmental Activities</b>	<b>\$ 205,704,009</b>

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

	<b>General Fund</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Construction Fund</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>						
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
<b>Total Revenues</b>	<b>378,875,460</b>	<b>35,396,620</b>	<b>3,351,331</b>		<b>31,309,246</b>	<b>448,932,657</b>
<b>Expenditures</b>						
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
<b>Total Expenditures</b>	<b>390,439,597</b>	<b>34,860,735</b>	<b>31,438,731</b>	<b>64,013,429</b>	<b>10,648</b>	<b>520,763,140</b>
<b>Revenues in Excess of (Less Than) Expenditures</b>	<b>(11,564,137)</b>	<b>535,885</b>	<b>(28,087,400)</b>	<b>(64,013,429)</b>	<b>31,298,598</b>	<b>(71,830,483)</b>
<b>Other Financing Sources (Uses)</b>						
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)
<b>Total Other Financing Sources (Uses)</b>	<b>827,911</b>	<b>(535,885)</b>	<b>28,207,185</b>	<b>5,529,175</b>	<b>(32,653,401)</b>	<b>1,374,985</b>
<b>Net Change in Fund Balances</b>	<b>(10,736,226)</b>		<b>119,785</b>	<b>(58,484,254)</b>	<b>(1,354,803)</b>	<b>(70,455,498)</b>
<b>Fund Balances, Beginning of Year</b>	<b>36,447,545</b>		<b>26,455</b>	<b>105,180,125</b>	<b>2,995,819</b>	<b>144,649,944</b>
<b>Fund Balances, End of Year</b>	<b>\$ 25,711,319</b>	<b>\$</b>	<b>\$ 146,240</b>	<b>\$ 46,695,871</b>	<b>\$ 1,641,016</b>	<b>\$ 74,194,446</b>

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

	<b>Enterprise Funds</b>		
	<b>Food Service Fund</b>	<b>After School Program Fund</b>	<b>Total</b>
<b>Assets</b>			
<b>Current Assets</b>			
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
<b>Total Current Assets</b>	<b>4,375,402</b>	<b>1,216,598</b>	<b>5,592,000</b>
<b>Noncurrent Assets</b>			
Capital assets, net of accumulated depreciation	3,970,971		3,970,971
<b>Total Assets</b>	<b>8,346,373</b>	<b>1,216,598</b>	<b>9,562,971</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	784,313	28,461	812,774
Due to other funds	17,749		17,749
<b>Total Liabilities</b>	<b>802,062</b>	<b>28,461</b>	<b>830,523</b>
<b>Net Position</b>			
Net investment in capital assets	3,970,971		3,970,971
Restricted	3,573,340	1,188,137	4,761,477
<b>Total Net Position</b>	<b>\$ 7,544,311</b>	<b>\$ 1,188,137</b>	<b>\$ 8,732,448</b>

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

	<b>Enterprise Funds</b>		
	<b>Food Service Fund</b>	<b>After School Program Fund</b>	<b>Total</b>
<b>Operating Revenues</b>			
Lunchroom sales	\$ 5,113,666		\$ 5,113,666
Other operating revenues	229,287	\$ 2,248,293	2,477,580
<b>Total Operating Revenues</b>	5,342,953	2,248,293	7,591,246
<b>Operating Expenses</b>			
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
<b>Total Operating Expenses</b>	20,408,795	2,030,851	22,439,646
<b>Operating Income (Loss)</b>	(15,065,842)	217,442	(14,848,400)
<b>Non-Operating Revenues</b>			
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)
<b>Total Non-Operating Revenues</b>	15,224,933	233,694	15,458,627
<b>Change in Net Position</b>	159,091	451,136	610,227
<b>Net Position, Beginning of Year</b>	7,385,220	737,001	8,122,221
<b>Net Position, End of Year</b>	<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

	<b>Enterprise Funds</b>		
	<b>Food Service Fund</b>	<b>After School Program Fund</b>	<b>Total</b>
<b>Cash Flows From Operating Activities</b>			
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>
<b>Net Cash Provided By (Used In) Operating Activities</b>			
	(11,218,907)	461,818	(10,757,089)
<b>Cash Flows From Noncapital Financing Activities</b>			
Cash received for operating grants	12,297,582		12,297,582
<b>Cash Flows From Investing Activities</b>			
Receipt of interest income	4,742	3,295	8,037
	<u>1,083,417</u>	<u>465,113</u>	<u>1,548,530</u>
<b>Net Increase in Cash and Cash Equivalents</b>			
	1,083,417	465,113	1,548,530
<b>Cash and Cash Equivalents, Beginning of Year</b>			
	<u>2,384,886</u>	<u>747,230</u>	<u>3,132,116</u>
<b>Cash and Cash Equivalents, End of Year</b>			
	<u>\$ 3,468,303</u>	<u>\$ 1,212,343</u>	<u>\$ 4,680,646</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities</b>			
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>
<b>Net Cash Provided By (Used In) Operating Activities</b>			
	\$ (11,218,907)	\$ 461,818	\$ (10,757,089)
<b>Schedule of Non-Cash Activities</b>			
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

	<b>Private Purpose Trust Funds</b>	<b>Agency Funds</b>	
		<b>Marcie Thomason Fund</b>	<b>School Activity Funds</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets</b>			
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
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total Assets</b>	1,562,764	<u>\$ 158,988</u>	<u>\$ 2,860,487</u>
<b>Liabilities</b>			
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>
		<u>          </u>	<u>          </u>
<b>Total Liabilities</b>		<u>\$ 158,988</u>	<u>\$ 2,860,487</u>
<b>Net Position Held in Trust</b>	<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

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

<b>Accounts and grants receivable from outside sources</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Total</b>
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:

	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2014</b>
<b><u>Governmental Activities</u></b>				
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>
<b>Total Governmental Activities Capital Assets, Net</b>	<b><u>\$ 467,444,175</u></b>	<b><u>\$ 104,229,919</u></b>	<b><u>\$ (55,007,442)</u></b>	<b><u>\$ 516,666,652</u></b>
<b><u>Business-Type Activities</u></b>				
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>
<b>Total Business-Type Activities Capital Assets, Net</b>	<b><u>\$ 3,925,766</u></b>	<b><u>\$ 103,195</u></b>	<b><u>\$ (57,990)</u></b>	<b><u>\$ 3,970,971</u></b>

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>
<b>Capital Lease Obligations, Due After One Year</b>	<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>	<b>Net Book Value as of June 30, 2014</b>
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%	<u>30,045,000</u>
		<b>School Building Revenue Bonds</b>	<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](http://www.ksbit-wc.com). The District will budget for these payments annually and pay the remaining balance on or before August 31<sup>st</sup> 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

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
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
<b>Total Revenues</b>	<b>299,581,270</b>	<b>312,464,436</b>	<b>378,875,460</b>	<b>66,411,024</b>
<b>Expenditures</b>				
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	
<b>Total Expenditures</b>	<b>307,142,224</b>	<b>328,705,551</b>	<b>390,439,597</b>	<b>(61,734,046)</b>
<b>Revenues in Excess of (Less Than) Expenditures</b>	<b>(7,560,954)</b>	<b>(16,241,115)</b>	<b>(11,564,137)</b>	<b>4,676,978</b>
<b>Other Financing Sources (Uses)</b>				
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
<b>Total Other Financing Sources (Uses)</b>	<b>(20,975,000)</b>	<b>(20,206,429)</b>	<b>827,911</b>	<b>21,034,340</b>
<b>Revenues and Other Financing Sources in Excess of (Less Than) Expenditures and Other Financing Uses</b>	<b>\$ (28,535,954)</b>	<b>\$ (36,447,544)</b>	<b>\$ (10,736,226)</b>	<b>\$ 25,711,318</b>

**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

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
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)
<b>Total Revenues</b>	<b>29,804,453</b>	<b>31,494,974</b>	<b>35,396,620</b>	<b>(3,901,646)</b>
<b>Expenditures</b>				
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)
<b>Total Expenditures</b>	<b>29,258,795</b>	<b>30,974,350</b>	<b>34,860,735</b>	<b>(3,886,385)</b>
<b>Revenues in Excess of (Less Than) Expenditures</b>	<b>545,658</b>	<b>520,624</b>	<b>535,885</b>	<b>15,261</b>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	568,305	552,523	552,523	
Operating transfer out	(1,113,963)	(1,073,147)	(1,088,408)	(15,261)
<b>Total Financing Sources (Uses)</b>	<b>(545,658)</b>	<b>(520,624)</b>	<b>(535,885)</b>	<b>(15,261)</b>
<b>Revenues and Other Financing Sources in Excess of (Less Than) Expenditures and Other Financing Uses</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**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		
<b>Assets</b>						
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	
<b>Total Assets</b>	<u>\$ 1,025,283</u>	<u>\$ 48,118</u>	<u>\$ 5,470</u>	<u>\$ 534,727</u>	<u>\$ 1,641,016</u>	
<b>Fund Balances</b>						
Restricted	\$ 1,025,283	\$ 48,118	\$ 5,470	\$ 534,727	\$ 1,641,016	
<b>Total Fund Balances</b>	<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

	<b>Building Fund</b>	<b>SEEK Capital Outlay Fund</b>	<b>Permanent Funds</b>			<b>Total Nonmajor Governmental Funds</b>
			<b>Anthony Dey Fund</b>	<b>Lexington Industrial School Fund</b>	<b>N. Isabel Schmidt Fund</b>	
<b>Revenues</b>						
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
<b>Total Revenues</b>	<b>27,774,178</b>	<b>3,524,435</b>	<b>7,260</b>	<b>4,126</b>	<b>(753)</b>	<b>31,309,246</b>
<b>Expenditures</b>						
Community service activities			1,864	6,231	2,553	10,648
<b>Revenues in Excess of (Less Than) Expenditures</b>	<b>27,774,178</b>	<b>3,524,435</b>	<b>5,396</b>	<b>(2,105)</b>	<b>(3,306)</b>	<b>31,298,598</b>
<b>Other Financing Uses</b>						
Operating transfers out	(29,156,383)	(3,497,018)				(32,653,401)
<b>Net Change in Fund Balances</b>	<b>(1,382,205)</b>	<b>27,417</b>	<b>5,396</b>	<b>(2,105)</b>	<b>(3,306)</b>	<b>(1,354,803)</b>
<b>Fund Balances,</b>						
<b>Beginning of Year</b>	<b>2,407,488</b>	<b>1</b>	<b>42,722</b>	<b>7,575</b>	<b>538,033</b>	<b>2,995,819</b>
<b>Fund Balances, End of Year</b>	<b>\$ 1,025,283</b>	<b>\$ 27,418</b>	<b>\$ 48,118</b>	<b>\$ 5,470</b>	<b>\$ 534,727</b>	<b>\$ 1,641,016</b>

See Accompanying Independent Auditors' Report