

Strothman & Company P S C

Certified Public Accountants & Advisors



District-wide and Fund Financial Statements
and Required Supplementary Information

Fayette County School District

June 30, 2012

District-wide and Fund Financial Statements
and Required Supplementary Information

Fayette County School District

June 30, 2012

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Independent Auditors' Report



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

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, 2012, which collectively comprise the District's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in financial position and cash flows of its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (Unaudited) and budgetary comparison information on pages 3 through 10, and on pages 44 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining supplementary information on pages 47 and 48 is presented for the purpose of additional analysis and is not a required part of the financial statements. The combining supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2012 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* and should be considered in assessing the results of our audit.

STROTHMAN & COMPANY

Louisville, Kentucky
November 14, 2012

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis (Unaudited)

Fayette County School District

Year Ended June 30, 2012

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, 2012. 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 fifth year the District has prepared the annual financial report using the new financial reporting model. This is the third year that the district has decided to implement GASB 54. 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 \$105.8 million in 2012 and \$178.7 million in 2011. This difference is the result of the 2011A bond proceeds being disbursed in June 2011 and recorded in FY 2011, but the Series 2012B bond proceeds were disbursed in July 2012 and recorded in FY 2013, reducing the cash balance between years.
- From 2011 to 2012, total revenue increased by 1.7%. Revenue from local sources increased 4.0% while revenue from the state increased by 9.95%. Our total net assets decreased by 2.96%.

Table One:
Total Revenue Comparison Analysis (Governmental Activities)

Revenues	2012	2011	Change
Local Sources:			
Property Taxes	\$ 158,484,915	\$ 152,070,967	\$ 6,413,948
Motor Vehicle Taxes	10,596,900	9,984,904	611,996
Utility Taxes	21,391,794	20,791,801	599,993
Occupational Taxes	30,216,866	29,575,337	641,529
State Sources:			
SEEK Program	87,497,387	78,217,241	9,280,146
Other State Revenues	73,659,980	68,599,432	5,060,548
KSFCC Allocation	1,214,723	1,858,067	(643,344)
Grants	32,875,996	48,812,994	(15,936,998)
Earnings on Investments	313,834	474,454	(160,620)
Other Sources	6,620,708	5,326,700	1,294,008
Total Revenues	\$ 422,873,103	\$ 415,711,897	\$ 7,161,206

Continued

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

Fayette County School District

Year Ended June 30, 2012

Table Two
Total Expense Analysis (Governmental Activities)

Expenses	2012	2011	Change
Instruction	\$ 265,841,630	\$223,632,513	\$ 42,209,117
Student support services	22,462,810	21,470,567	992,243
Instructional staff support services	18,794,612	21,224,172	(2,429,560)
District administrative support services	5,360,783	4,658,999	701,784
School administrative support services	20,910,630	18,840,849	2,069,781
Business support services	22,007,552	20,939,488	1,068,064
Plant operations and maintenance	40,310,616	36,468,348	3,842,268
Transportation	17,214,067	18,910,671	(1,696,604)
Facilities acquisition/construction	1,103,760	15,554,916	(14,451,156)
Community services	2,437,628	2,405,422	32,206
Interest	13,144,191	12,593,976	550,215
Loss on sale of fixed assets	44,140	59,108	(14,968)
Total Expenses	\$ 429,632,419	\$396,759,029	\$ 32,873,390

Among major funds, the General Fund had approximately \$345 million in revenue, 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 \$362.8 million in expenditures.

- The District has earned accolades for Most Outstanding Organization and Most Outstanding Program from the Kentucky Association for Environmental Education.
- Additional environmental accolades earned in 2011-2012 year include an Energy Leadership Award from the Governor's Conference on Energy and the Environment and the Kentucky Energy Efficiency Program for Schools Champion Award.
- The Child Nutrition Department of FCPS received the 2012 Little Blue Dynamos Health Halo Award for its "Connect the Dots" campaign, which encourages students to choose a variety of nutritious foods in the school cafeteria line. The Department was also among those invited to a White House reception for the Healthier US School Challenge, under which all elementary schools in the district have met gold standards.
- 151 teachers have just earned National Board Certification
- During Fiscal Year 2012, the District opened two new schools: Locust Trace AgriScience Center and Wellington Elementary School.

Continued

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

Fayette County School District

Year Ended June 30, 2012

- During Fiscal Year 2012, the following construction projects were completed: Meadowthorpe Elementary roof top unit replacement, Cassidy Elementary renovation, Arlington Elementary renovation, Lafayette High stadium replacement and Leestown Middle renovation.
- The District currently has under construction renovation of Clays Mill, Yates, Tates Creek Middle, Breckinridge, Cardinal Valley, Mary Todd, Millcreek, James Lane Allen, Meadowthorpe, Stonewall, Tates Creek Elementary and adaptive Re-use of the Warehouse on Russell Cave Road. Also under construction are Wellington Elementary and Locust Trace Agriscience Farm.
- The District currently has under design: renovation of Deep Springs Elementary, renovation of Garden Springs Elementary and renovation of Glendover Elementary.
- The District received a Public Service to Preservation Award for the recent renovations of Arlington Elementary, Cassidy Elementary, Russell Cave Elementary and Yates Elementary. The annual Preservation Awards recognize the outstanding contributions of individuals and organizations to the Blue Grass Trust or to the preservation movement in Kentucky.
- The Chief Operating Officer and District leadership continues to utilize zero based budgeting in preparation for the 2013 Fiscal Year.
- Another budgeting technique the Chief Operating Officer and District leadership have employed is the development of a "biennial budget" plan which takes into account legislated mandates and approved state resources. This requires a projection of recurring revenues over a two year period and anticipated expenses over that same timeframe. This has allowed the District to utilize the recurring dollars to fund initiatives for one year while reserving these funds for recurring expenses in the second year of the biennium. This strategy has helped to solidify a strong financial position.
- The District purchased a 15-acre parcel on a large tract of land currently addressed as 1281 Deer Haven Lane for a new elementary school in the booming residential area east of I-75. The school, which will be built to accommodate roughly 650 students, is expected to open in the fall of 2015.
- The District is in its sixth year of a Student Continuation Plan that enables elementary students to stay and finish at the school where they first enroll. The plan also addresses the future crowding in a way that eliminates the need for redistricting or requiring entire neighborhoods of students to change schools as has been done in the past.
- The District has been a What Parents Want national award winner for 21 years running and Parenting Magazine named Fayette County the #2 Best City for Education in the nation.

Continued

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

Fayette County School District

Year Ended June 30, 2012

- FCPS had 27 National Merit Semi-Finalists, 56 Governor's Scholars and 37 Governor's School for the Arts participants.
- Rosa Parks elementary was named a National Green Ribbon School.
- Paul Laurence Dunbar High School won the National Quiz Bowl for the third year in a row. They also took first place among high schools in the 2012 Governor's Cup.
- From June 2011 through April 2012, seven students in the District scored a perfect 36 on the ACT college entrance exam.
- The 2,246 students who graduated from the District in May 2012 have reported nearly \$61.7 million in scholarships offers.
- The Chief Operating Officer working in conjunction with other District leadership continues the refinement of the structure of the business and operations areas, while evaluating processes and allocation of resources.
- District leadership continues to work directly with the Budget and Finance Committee and staff to review and implement sound fiscal practices in utilizing school funding.
- Three Financial Services staff members are certified in Grants Management with two pending certification to be approved in 2013 Fiscal Year.
- Five staff members have successfully achieved their CSFO (Certified School Financial Officer) certification with one pending to be approved in 2013 Fiscal Year.
- 8 staff members have received certification of CSFM (Certified School Financial Manager) with three pending to be approved in Fiscal Year 2013.
- The Financial Services administrative 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.

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 the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Continued

Fayette County School District

Year Ended June 30, 2012

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

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets 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.

Notes to the financial statements.

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 the financial statements can be found on pages 23 through 43 of this report.

Continued

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

Fayette County School District

Year Ended June 30, 2012

DISTRICT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment, and construction in progress) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. 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 tenth 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, 2012

2012 District-Wide Net Asset compared to 2011 follows:

**Table Three:
2012 District-Wide Net Assets Compared to 2011**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 145,455,098	\$ 207,918,110	\$ 5,095,992	\$ 5,085,218	\$ 150,551,090	\$ 213,003,328
Capital assets, net of depreciation	424,819,121	380,513,443	3,726,686	3,972,103	428,545,807	384,485,546
Total Assets	570,274,219	588,431,553	8,822,678	9,057,321	579,096,897	597,488,874
Short-term liabilities	34,725,065	34,091,861	822,216	938,591	35,547,281	35,030,452
Other liabilities	306,940,486	318,971,708			306,940,486	318,971,708
Total Liabilities	341,665,551	353,063,569	822,216	938,591	342,487,767	354,002,160
Net Assets						
Invested in capital assets, net of related debt	119,483,084	62,647,100	3,726,686	3,972,103	123,209,770	66,619,203
Restricted	48,965,589	94,487,297	4,273,776		53,239,365	94,487,297
Unrestricted	60,159,995	78,233,587		4,146,627	60,159,995	82,380,214
Total Net Assets	\$ 228,608,668	\$ 235,367,984	\$ 8,000,462	\$ 8,118,730	\$ 236,609,130	\$ 243,486,714

The following table presents a comparison and summary of revenue and expenditures for the fiscal years 2012 and 2011.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for service	\$ 152,715	\$ 156,598	\$ 7,872,405	\$ 7,784,198	\$ 8,025,120	\$ 7,940,796
Operating grants & contributions	33,938,004	50,514,463	12,143,176	11,372,788	46,081,180	61,887,251
Capital grants & contributions	65,351	92,093	1,328,494	2,572,748	1,393,845	2,664,841
General revenues						
Local taxes	220,690,475	212,423,009			220,690,475	212,423,009
State sources	161,157,367	146,816,673			161,157,367	146,816,673
Earnings on investments	313,834	474,454	6,766		320,600	474,454
Loss on sale of capital assets	(44,140)	(59,103)	(14,680)	(104,275)	(58,820)	(163,378)
Other	6,555,357	5,234,602		8,976	6,555,357	5,243,578
Total Revenues	422,828,963	415,652,789	21,336,161	21,634,435	444,165,124	437,287,224
Expenses						
School operating & administration	416,444,088	384,105,945			416,444,088	384,105,945
School food services			19,810,661	19,263,419	19,810,661	19,263,419
After school program			1,643,768	1,386,418	1,643,768	1,386,418
Interest on debt service	13,144,191	12,593,976			13,144,191	12,593,976
Total Expenses	429,588,279	396,699,921	21,454,429	20,649,837	451,042,708	417,349,758
Change in Net Assets	\$ (6,759,316)	\$ 18,952,868	\$ (118,268)	\$ 984,598	\$ (6,877,584)	\$ 19,937,466

Continued

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

Fayette County School District

Year Ended June 30, 2012

Expenses that declined from 2011 to 2012 include instructional staff support services, District Administrative Support Services, and Community Services. 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 results for the general fund indicate that there were no variations which would have a significant effect on future services or liquidity. We budgeted approximately \$331.8 million in revenue and received approximately \$331.3 million in general fund excluding on behalf revenue. Our financial position remains very strong and we will continue to utilize trend analysis to help predict such variances in the future.

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 2012 with \$21.9 million in contingency that is approximately 5%. The District is the second largest in the state with approximately 39,145 students and is the second largest employer in Fayette County.

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

District-wide Financial Statements

Statement of Net Assets

Fayette County School District

June 30, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 105,803,695	\$ 4,539,470	\$ 110,343,165
Investments	342,443		342,443
Accounts and grants receivable from outside sources	35,249,599	94,190	35,343,789
Inventories	1,728,952	481,373	2,210,325
Internal balances	19,041	(19,041)	
Capital assets, net of accumulated depreciation	424,819,121	3,726,686	428,545,807
Bond issuance costs	2,311,368		2,311,368
	Total Assets	8,822,678	579,096,897
Liabilities			
Accounts payable and accrued liabilities due to outside sources	26,348,146	822,216	27,170,362
Interest payable	2,073,364		2,073,364
Deferred revenue	6,082,023		6,082,023
Estimated liability for workers' compensation benefits	221,532		221,532
Accrued sick leave			
Due within one year	1,304,606		1,304,606
Due in more than one year	3,688,659		3,688,659
School building revenue bonds			
Due within one year	13,999,528		13,999,528
Due in more than one year	281,958,512		281,958,512
Capital lease			
Due within one year	1,274,178		1,274,178
Due in more than one year	4,715,003		4,715,003
	Total Liabilities	822,216	342,487,767
Net Assets			
Invested in capital assets, net of related debt	119,483,084	3,726,686	123,209,770
Restricted for:			
Capital projects	48,069,300		48,069,300
Other purposes	896,289	4,273,776	5,170,065
Unrestricted	60,159,995		60,159,995
	Total Net Assets	\$ 8,000,462	\$ 236,609,130

See Accompanying Notes to Financial Statements

Statement of Activities

Fayette County School District

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instruction	\$ 265,841,630	\$ 152,715	\$ 32,723,281		\$ (232,965,634)
Support Services					
Student	22,462,810				(22,462,810)
Instruction staff	18,794,612				(18,794,612)
District administration	5,360,783				(5,360,783)
School administration	20,910,630				(20,910,630)
Business	22,007,552				(22,007,552)
Plant operation and maintenance	40,310,616		1,214,723		(39,095,893)
Student transportation	17,214,067				(17,214,067)
Facilities acquisition/construction	1,103,760			\$ 65,351	(1,038,409)
Community service activities	2,437,628				(2,437,628)
Interest on long-term debt	13,144,191				(13,144,191)
Total Governmental Activities	429,588,279	152,715	33,938,004	65,351	(395,432,209)
Business-Type Activities					
Food service	19,810,660	6,109,817	11,967,427	1,328,494	(404,922)
After school program	1,643,768	1,762,587	175,749		294,568
Total Business-Type Activities	21,454,428	7,872,404	12,143,176	1,328,494	(110,354)
Total Activities	\$ 451,042,707	\$ 8,025,119	\$ 46,081,180	\$ 1,393,845	\$ (395,542,563)
			Governmental Activities	Business- Type Activities	Total
Changes in Net Assets					
Net Expenses			\$ (395,432,209)	\$ (110,354)	\$ (395,542,563)
General Revenues					
Taxes					
Property taxes			158,484,915		158,484,915
Motor vehicle taxes			10,596,900		10,596,900
Utility taxes			21,391,794		21,391,794
Occupational license tax			30,216,866		30,216,866
State sources					
SEEK program			87,497,387		87,497,387
Other state revenues and grants			73,659,980		73,659,980
Loss on sale of capital assets			(44,140)	(14,680)	(58,820)
Earnings on investments			313,834	6,766	320,600
Local revenues			6,555,357		6,555,357
Total General Revenues			388,672,893	(7,914)	388,664,979
Change in Net Assets			(6,759,316)	(118,268)	(6,877,584)
Net Assets, Beginning of Year			235,367,984	8,118,730	243,486,714
Net Assets, End of Year			\$ 228,608,668	\$ 8,000,462	\$ 236,609,130

See Accompanying Notes to Financial Statements

Fund Financial Statements

Balance Sheet - Governmental Funds

Fayette County School District

June 30, 2012

	General Fund	Special Revenue	Debt Service	Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 52,265,849		\$ 300,331	\$ 49,230,993	\$ 4,006,522	\$ 105,803,695
Investments					342,443	342,443
Accounts and grants receivable from outside sources	11,631,321	\$ 23,543,015			75,263	35,249,599
Inventory	1,728,952					1,728,952
Interfund receivables	17,427,267					17,427,267
Due from other funds	19,041					19,041
Total Assets	\$ 83,072,430	\$ 23,543,015	\$ 300,331	\$ 49,230,993	\$ 4,424,228	\$ 160,570,997
Liabilities						
Accounts payable and accrued liabilities due to outside sources	\$ 20,599,808	\$ 758,375		\$ 4,989,963		\$ 26,348,146
Accrued sick leave	1,304,606					1,304,606
Deferred revenue	724,650	5,357,373				6,082,023
Interfund payables		17,427,267				17,427,267
Estimated liability for workers' compensation benefits	221,532					221,532
Total Liabilities	22,850,596	23,543,015		4,989,963		51,383,574
Fund Balances						
Assigned	2,636,628					61,617,435
Restricted	21,950,000		\$ 300,331	58,980,807	\$ 595,958	22,846,289
Non-spendable	1,728,952			(14,739,777)	3,828,270	1,728,952
Unassigned	11,152,599					241,092
Committed	22,753,655					22,753,655
Total Fund Balances	60,221,834		300,331	44,241,030	4,424,228	109,187,423
Total Liabilities and Fund Balances	\$ 83,072,430	\$ 23,543,015	\$ 300,331	\$ 49,230,993	\$ 4,424,228	\$ 160,570,997

Continued

Balance Sheet - Governmental Funds--Continued

Fayette County School District

June 30, 2012

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets

Total fund balance per fund financial statements \$ 109,187,423

Amounts reported for governmental activities in the statement of net assets 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 assets 424,819,121

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 assets 2,311,368

Certain liabilities (such as 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 assets

(307,709,244)

Net Assets of Governmental Activities \$ 228,608,668

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, 2012

	General Fund	Special Revenue	Debt Service	Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
From local sources						
Property taxes	\$ 132,265,432				\$ 26,219,483	\$ 158,484,915
Motor vehicle taxes	9,704,577				892,323	10,596,900
Utility taxes	21,391,794					21,391,794
Occupational license tax	30,216,866					30,216,866
State sources						
SEEK	84,097,929				3,399,458	87,497,387
Other state revenues	62,794,526	\$ 10,865,454	\$ 1,214,723			73,659,980
KSFCC allocation						1,214,723
Grants (principally United States government and local agencies)		32,715,817				32,715,817
Earnings on investments	201,176				12,315	313,834
Other sources	4,074,414	316,307	2,317,351	\$ 65,351	7,464	6,780,887
Total Revenues	344,746,714	43,897,578	3,632,417	65,351	30,531,043	422,873,103
Expenditures						
Instruction	220,294,107	31,067,618				251,361,725
Support services						
Student	19,548,886	2,913,101				22,461,987
Instruction staff	16,278,949	2,515,663				18,794,612
District administration	5,332,846	22,332				5,355,178
School administration	19,429,225	1,481,405				20,910,630
Business	20,935,833	1,886,769				22,822,602

Continued

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

Fayette County School District

Year Ended June 30, 2012

	General Fund	Special Revenue	Debt Service	Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Plant operation and maintenance	39,975,616	328,727				40,304,343
Student transportation	19,757,255	158,146			17,425	19,915,401
Community service activities		2,420,203				2,437,628
Facilities acquisition and construction				54,512,716		54,512,716
Debt service	1,247,790		26,370,377			27,618,167
Total Expenditures	362,800,507	42,793,964	26,370,377	54,512,716	17,425	486,494,989
Revenues in Excess of (Less Than) Expenditures	(18,063,793)	1,103,614	(22,737,960)	(54,447,365)	30,513,618	(63,621,886)
Other Financing Sources (Uses)						
Proceeds from sale of capital assets	88,425					88,425
Operating transfers in	1,771,423	667,808	22,694,650	5,441,739		30,575,620
Operating transfers out	(1,817,808)	(1,771,422)			(26,986,390)	(30,575,620)
Total Other Financing Sources (Uses)	42,040	(1,103,614)	22,694,650	5,441,739	(26,986,390)	88,425
Net Change in Fund Balances	(18,011,753)		(43,310)	(49,005,626)	3,527,228	(63,533,461)
Fund Balances, Beginning of Year	78,233,587		343,641	93,246,656	897,000	172,720,884
Fund Balances, End of Year	\$ 60,221,834	\$	\$ 300,331	\$ 44,241,030	\$ 4,424,228	\$ 109,187,423

Continued

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

Fayette County School District

Year Ended June 30, 2012

Net Change in Fund Balances - Governmental Funds	\$ (63,533,461)
<p>Amounts reported for governmental activities in the statement of activities are different because</p>	
<p>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 assets and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed depreciation for the year</p>	44,438,243
<p>Bond issuance costs are recognized as expenditures of current financial resources in the fund financial statements but are capitalized in the statement of net assets and amortized.</p>	12,594
<p>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.</p>	(44,140)
<p>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 assets</p>	<u>12,367,448</u>
Change in Net Assets of Governmental Activities	\$ <u><u>(6,759,316)</u></u>

See Accompanying Notes to Financial Statements

Statement of Net Assets - Proprietary Funds

Fayette County School District

June 30, 2012

	Enterprise Funds		
	Food Service Fund	After School Program Fund	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 3,898,884	\$ 640,586	\$ 4,539,470
Accounts receivable	69,755	24,435	94,190
Inventories	481,373		481,373
Total Current Assets	4,450,012	665,021	5,115,033
Noncurrent Assets			
Capital assets, net of accumulated depreciation	3,726,686		3,726,686
Total Assets	8,176,698	665,021	8,841,719
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	808,709	13,507	822,216
Due to other funds	19,041		19,041
Total Liabilities	827,750	13,507	841,257
Net Assets			
Invested in capital assets	3,726,686		3,726,686
Restricted	3,622,262	651,514	4,273,776
Total Net Assets	\$ 7,348,948	\$ 651,514	\$ 8,000,462

See Accompanying Notes to Financial Statements

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

Fayette County School District

Year Ended June 30, 2012

	Enterprise Funds		Total
	Food Service Fund	After School Program Fund	
Operating Revenues			
Lunchroom sales	\$ 5,809,818		\$ 5,809,818
Other operating revenues	299,999	\$ 1,762,587	2,062,586
Total Operating Revenues	6,109,817	1,762,587	7,872,404
Operating Expenses			
Salaries, wages and fringe benefits	9,658,257	1,469,665	11,127,922
Material and supplies	9,516,160	174,103	9,690,263
Depreciation	636,243		636,243
Total Operating Expenses	19,810,660	1,643,768	21,454,428
Operating Income (Loss)	(13,700,843)	118,819	(13,582,024)
Non-Operating Revenues			
Federal grants	10,738,879		10,738,879
Donated commodities	922,989		922,989
State grants	166,161		166,161
Interest income	5,558	1,208	6,766
On-behalf revenues	1,062,387	175,749	1,238,136
Donated transfer of assets	405,505		405,505
Loss on sale of capital assets	(14,680)		(14,680)
Total Non-Operating Revenues	13,286,799	176,957	13,463,756
Change in Net Assets	(414,044)	295,776	(118,268)
Net Assets, Beginning of Year	7,762,992	355,738	8,118,730
Net Assets, End of Year	<u>\$ 7,348,948</u>	<u>\$ 651,514</u>	<u>8,000,462</u>

See Accompanying Notes to Financial Statements

Statement of Cash Flows - Proprietary Funds

Fayette County School District

Year Ended June 30, 2012

	Enterprise Funds		
	Food Service Fund	After School Program Fund	Total
Cash Flows From Operating Activities			
Cash received from			
Lunchroom sales	\$ 5,965,472		\$ 5,965,472
Other activities	299,999	\$ 1,751,967	2,051,966
Cash paid for			
Employees	(8,595,870)	(1,293,916)	(9,889,786)
Supplies	(8,799,780)	(163,536)	(8,963,316)
Net Cash Provided By (Used In) Operating Activities	(11,130,179)	294,515	(10,835,664)
Cash Flows From Noncapital Financing Activities			
Cash received for operating grants	10,905,039		10,905,039
Cash Flows From Investing Activities			
Receipt of interest income	5,558	1,208	6,766
Net Increase (Decrease) in Cash and Cash Equivalents	(219,582)	295,723	76,141
Cash and Cash Equivalents, Beginning of Year	4,118,466	344,863	4,463,329
Cash and Cash Equivalents, End of Year	<u>\$ 3,898,884</u>	<u>\$ 640,586</u>	<u>\$ 4,539,470</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities			
Operating income (loss)	\$ (13,700,843)	\$ 118,819	\$ (13,582,024)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	636,243		636,243
On-behalf revenues	1,062,387	175,749	1,238,136
Donated commodities used in operations	922,989		922,989
Changes in operating assets and liabilities			
Accounts receivable	155,654	(10,620)	145,034
Inventory	(72,632)		(72,632)
Accounts payable	(126,942)	10,567	(116,375)
Due to/from other funds	(7,035)		(7,035)
Net Cash Provided By (Used In) Operating Activities	<u>\$ (11,130,179)</u>	<u>\$ 294,515</u>	<u>\$ (10,835,664)</u>
Schedule of Non-Cash Activities			
Donated commodities received from federal government (Operating Activity)	<u>\$ 922,989</u>		
Donated capital assets (Capital Activity)	<u>\$ 405,505</u>		

See Accompanying Notes to Financial Statements

Statement of Fiduciary Net Assets

Fayette County School District

June 30, 2012

	Private Purpose Trust Funds	Agency Funds	
		Marcie Thomason Fund	School Activity Funds
Assets			
Cash and cash equivalents	\$ 366,309	\$ 134,087	\$ 2,565,843
Investments	891,850		
Accounts receivable			34,913
Due from Fayette County School			27,511
Inventory			10,447
	<hr/>	<hr/>	<hr/>
Total Assets	1,258,159	<u>\$ 134,087</u>	<u>\$ 2,638,714</u>
Liabilities			
Accounts payable			\$ 51,078
Due to Fayette County School			5,963
Due to student groups		<u>\$ 134,087</u>	<u>2,581,673</u>
		<hr/>	<hr/>
Total Liabilities		<u>\$ 134,087</u>	<u>\$ 2,638,714</u>
Net Assets Held in Trust	<u>\$ 1,258,159</u>		

See Accompanying Notes to Financial Statements

Statement of Changes in Fiduciary Net Assets

Fayette County School District

June 30, 2012

	Private Purpose Trust Funds
Additions	
Contributions	\$ 14,268
Interest income	936
	<hr/>
Total Additions	15,204
Deductions	
Loss on investments	(73,605)
	<hr/>
Total Deductions	(73,605)
Changes in Net Assets	(58,401)
Net Assets, Beginning of Year	<hr/> 1,316,560
Net Assets, End of Year	<hr/> <hr/> \$ 1,258,159

See Accompanying Notes to Financial Statements

Notes to Financial Statements

Notes to Financial Statements

Fayette County School District

June 30, 2012

Note A--Reporting Entity

The Fayette County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Fayette County School District ("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, public and charitable 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 assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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, 2012

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, 2012

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. 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.
- (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.

The District applies all Governmental Accounting Standards Boards ("GASB") pronouncements to proprietary funds as well as the Accounting Principles Board and Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Effective for the fiscal year ending June 30, 2013, the District will implement GASB statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, which will codify this election.

Continued

Fayette County School District

June 30, 2012

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

Additionally, the District intends to implement GASB statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* for the fiscal year ending June 30, 2013.

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.

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.

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, 2012

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

Deferred Revenue--Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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 assets 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. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. 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 demand deposits, money market funds, undeposited funds and other investments with an original maturity of 90 days or less, to be cash equivalents.

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, 2012

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 September 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, 2012 were \$0.652 per \$100 valuation for real property and \$0.543 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 assets. All realized gains and losses in fair value are recorded in the statement of changes in fiduciary net assets.

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 balance.

Continued

Fayette County School District

June 30, 2012

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 assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the District-wide statement of net assets 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 \$1,000 with the exception of technology purchases for which there is no threshold. The capitalization threshold will increase to \$5,000 in Fiscal Year 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 assets, 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 assets, 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, 2012

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 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, expendable, 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, 2012 in the governmental funds balance sheet.

Fund balance of the General Fund has been committed by the District for the following purposes:

<u>Designated Purpose</u>	<u>Amount</u>
Retirement leave	\$ 3,400,000
Construction	10,874,595
Energy and loss contingency	8,479,060
	<u>\$ 22,753,655</u>

Continued

Fayette County School District

June 30, 2012

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

Net Assets--Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and are reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the 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, 2012, 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, 2012

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.

Investments on the statement of fiduciary net assets for agency funds consist of certificates of deposit by various schools' activity funds at several financial institutions located in Fayette County, Kentucky, having various rates of interest and maturity dates greater than ninety days. Such investments are stated at cost, which approximates their market value. These investments are covered by depositor insurance or by collateral held by the financial institutions in the District's name.

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, 2012, 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	\$ 342,443	AAA	1.79
Fiduciary-Private Purpose Trust	Mutual Funds	<u>891,850</u>	A	N/A
		<u>\$ 1,234,293</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.

Continued

Fayette County School District

June 30, 2012

Note D--Investments--Continued

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

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

Note E--Receivables

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

Accounts and grants receivable from outside sources	Governmental Funds	Proprietary Funds	Total
Accounts receivable	\$ 1,895,833	\$ 94,190	\$ 1,990,023
Taxes receivable	9,810,751		9,810,751
Grants receivable	23,543,015		23,543,015
	<u>\$ 35,249,599</u>	<u>\$ 94,190</u>	<u>\$ 35,343,789</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, 2012

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 assets.

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	KETS Match	\$ 667,808
Operating	General	Construction	Construction	1,150,000
Operating	Capital Outlay	Construction	Construction	1,000,430
Operating	Building Fund	Debt Service	Debt Service	22,694,650
Operating	Building Fund	Construction	Construction	3,291,309
Operating	Special Revenue	General Fund	Indirect Costs	1,771,423

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2012

Note G--Capital Assets

Capital asset activity for the year ended June 30, 2012 consisted of the following:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
<u>Governmental Activities</u>				
Land	\$ 6,671,297			\$ 6,671,297
Buildings and improvements	430,729,805	\$ 39,960,012		470,689,817
Technology equipment	24,351,043	3,162,478	\$ 5,815,733	21,697,788
Vehicles	16,341,304	4,413,501	1,698,556	19,056,249
General equipment	6,969,220	815,050	2,187,484	5,596,786
Construction in progress	91,850,795	53,408,956	39,950,384	105,309,367
	<u>576,913,464</u>	<u>101,759,997</u>	<u>49,652,157</u>	<u>629,021,304</u>
Less accumulated depreciation	<u>196,400,021</u>	<u>17,371,370</u>	<u>9,569,208</u>	<u>204,202,183</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 380,513,443</u>	<u>\$ 84,388,627</u>	<u>\$ 40,082,949</u>	<u>\$ 424,819,121</u>
<u>Business-Type Activities</u>				
Food service equipment	\$ 9,408,277	\$ 405,505	\$ 2,750,502	\$ 7,063,280
Technology equipment	164,453		16,265	148,188
	<u>9,572,730</u>	<u>405,505</u>	<u>2,766,767</u>	<u>7,211,468</u>
Less accumulated depreciation	<u>5,600,627</u>	<u>636,243</u>	<u>2,752,088</u>	<u>3,484,782</u>
Total Business-Type Activities Capital Assets, Net	<u>\$ 3,972,103</u>	<u>\$ (230,738)</u>	<u>\$ 14,679</u>	<u>\$ 3,726,686</u>

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2012

Note G--Capital Assets--Continued

Depreciation expense for the year ended June 30, 2012 for governmental activities by function is summarized below:

<u>Function</u>	<u>Amount</u>
Instructional	\$ 16,458,452
Instruction student support	823
District administration	5,605
Plant operations and maintenance	6,273
Student transportation	900,217
	<u>\$ 17,371,370</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, 2012:

<u>Year Ending June 30</u>	<u>Amount</u>
2013	\$ 1,463,170
2014	1,273,234
2015	1,047,887
2016	849,399
2017	645,151
2018 and Thereafter	<u>1,369,301</u>
Total minimum lease payments	6,648,142
Less amount representing interest	<u>658,961</u>
Present value of net minimum lease payments	5,989,181
Capital lease obligations, due within one year	<u>1,274,178</u>
Capital Lease Obligations, Due After One Year	<u><u>\$ 4,715,003</u></u>

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2012

Note H--Capital Lease Obligations--Continued

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

<u>Class of Property</u>	<u>Net Book Value as of June 30, 2012</u>
Buses	\$ 10,156,291

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, 2012</u>
2002A	7,095,000	1.900% - 4.125%	\$ 114,528
2003A	17,505,000	2.000% - 4.500%	445,000
2004A	13,505,000	2.500% - 3.750%	8,100,000
2004B	15,160,000	2.500% - 4.000%	10,365,000
2005A	52,710,000	3.500% - 5.000%	3,750,000
2005B	25,735,000	3.000% - 4.000%	21,620,000
2005C	13,065,000	3.500% - 4.000%	11,055,000
2007A	36,450,000	4.375% - 4.500%	35,460,000
2009A	41,150,000	1.600% - 5.375%	36,195,000
2009B	8,955,000	1.000% - 3.250%	7,090,000
2010A	13,440,000	1.000% - 3.500%	12,605,000
2010B	43,175,000	0.700% - 5.3000%	41,410,000
2011A	52,175,000	2.500% - 5.000%	50,310,000
2011B	16,590,000	2.000% - 2.375%	16,460,000
2012A	42,310,000	3.000% - 4.000%	42,310,000
		School Building Revenue Bonds	297,289,528
		Less unamortized deferred losses	
		School Building Revenue Bonds	1,331,488
			<u>\$ 295,958,040</u>

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.

Continued

Fayette County School District

June 30, 2012

Note I--School Building Revenue Bonds--Continued

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. Approval has been received for the biennial fiscal period ended June 30, 2013. 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, 2012 (principal and interest) are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Commission Participation</u>	<u>District's Portion</u>
2013	\$ 13,999,528	\$ 11,379,669	\$ 2,553,681	\$ 22,825,516
2014	14,975,000	11,266,515	2,436,790	23,804,725
2015	15,715,000	10,761,531	2,436,790	24,039,741
2016	16,555,000	10,208,101	2,953,166	23,809,935
2017	17,845,000	9,591,400	2,953,166	24,483,234
2018-2022	93,100,000	37,748,072	11,151,045	119,697,027
2023-2027	95,175,000	19,694,616	8,366,899	106,502,717
2028-2032	29,925,000	3,186,195	2,941,364	30,169,831
	<u>\$ 297,289,528</u>	<u>\$ 113,836,099</u>	<u>\$ 35,792,901</u>	<u>\$ 375,332,726</u>

During the year ended June 30, 2012, the District made principal payments of \$14,155,485.

Defeased Bonds

During fiscal year 2012, the District issued advance refunding school building revenue bonds Series 2011B and Series 2012A totaling \$58,900,000. The refunding resulted in a deferred loss which will be amortized over the remaining lives of the refunded debt. The balance of the unamortized deferred loss arising from the bond issues is \$1,331,488 as of June 30, 2012. The advance refunding met the requirements of an in-substance debt defeasance and the refunded portions of the school building revenue bonds Series 2003A and 2005A totaling \$57,440,000 were removed from the District's long-term debt obligations. The advance refunding was undertaken to obtain an economic gain and reduce total debt service payments by \$4,526,764.

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2012

Note I--School Building Revenue Bonds--Continued

School building revenue bond Series 2012B was approved on June 25, 2012 and sold on June 27, 2012 in the amount of \$56,730,000 for the purposes of financing the renovations of four elementary schools. The proceeds were not formally received until July 2012 and will be recorded in the fiscal 2013 financial statements.

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 assets since the majority of these liabilities are not expected to be liquidated with expendable available 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.

Note K--Long-Term Liabilities

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2012 is as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>
<u>Governmental Activities</u>				
School building revenue bonds	\$ 309,985,013	\$ 58,900,000	\$ 72,926,973	\$ 295,958,040
Capital lease obligations	5,177,231	1,876,843	1,064,893	5,989,181
Estimated liability for workers' compensation benefits	133,923	640,072	552,463	221,532
Accrued sick leave	3,809,464	2,229,698	1,045,897	4,993,265
	<u>\$ 319,105,631</u>	<u>\$ 63,646,613</u>	<u>\$ 75,590,226</u>	<u>\$ 307,162,018</u>

Fayette County School District

June 30, 2012

Note L--On-Behalf Payments

For the year ended June 30, 2012, total payments of \$62,750,216 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.

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 other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the 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 commercial insurance. The District has purchased certain coverages which are retrospectively rated, including workers' compensation insurance.

Continued

Fayette County School District

June 30, 2012

Note O--Risk Management--Continued

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

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District implemented an arrangement with the Kentucky School Board Insurance Trust Liability Insurance Fund for workers' compensation. Under the arrangement, the District is responsible for the first \$15,000 of each claim incurred during the fiscal year, up to a \$600,000 stop-loss amount. If and when the deductible amounts paid by the District reach the \$600,000 stop-loss amount, the District ceases to be liable for any further expenses related to those claimants. At that point, the District becomes responsible for a \$1,000 per claim "maintenance deductible" for additional claims. At June 30, 2012, the District has a reserve in the amount of \$221,532 for claims incurred but not yet reported, which is included as a liability on the District – wide statement of net assets.

The estimated liability for workers' compensation benefits consists of claim settlements for reported and outstanding claims and estimated claim settlements for incurred but not reported claims (based upon historical experience). Estimated claim settlements for incurred but not reported claims are discounted at 6% over the anticipated payment periods to reflect the time value of money. This liability, along with certain related assets and liabilities, is accounted for within the General Fund, which is administered by the District for the purpose of providing workers' compensation insurance to employees of the District.

Fayette County School District

June 30, 2012

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 18.96% 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, 2012, 2011, and 2010 were approximately \$10,512,000, \$8,848,000 and \$7,936,000, respectively, equal to the required contribution for that year.

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 10.355% of their annual covered compensation and all new members hired after June 30, 2008 are required to contribute 10.855% 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 \$25,226,890 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, 2012, this funding amounted to approximately \$1,896,000.

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.

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2012

Note P--Retirement Plans--Continued

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.

Note S--Commitments

As of June 30, 2012, the District had outstanding commitments for construction approximating - \$144,495,000.

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 school 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, 2012 was \$594,558.

Required Supplementary Information

Budgetary Comparison Information

Schedule of Revenues and Expenditures - Budget and Actual
 General Fund

Fayette County School District

Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources				
Property taxes	\$ 133,712,629	\$ 134,589,794	\$ 132,265,432	\$ (2,324,362)
Motor vehicle taxes	9,044,495	9,041,538	9,704,577	663,039
Utility taxes	20,333,488	20,791,800	21,391,794	599,994
Occupational license tax	31,402,843	29,610,228	30,216,866	606,638
Earnings on investments	348,686	258,835	201,176	(57,659)
Other sources	3,114,073	4,013,948	4,074,414	60,466
State sources				
SEEK	73,351,644	84,097,929	84,097,929	
Other state revenues	1,085,099	1,090,597	62,794,526	61,703,929
Total Revenues	272,392,957	283,494,669	344,746,714	61,252,045
Expenditures				
Instruction	153,764,917	185,105,887	220,294,107	(35,188,220)
Support services				
Student	16,996,541	17,164,186	19,548,886	(2,384,700)
Instruction staff	16,296,518	15,029,767	16,278,949	(1,249,182)
District administration	5,356,740	5,012,719	5,332,846	(320,127)
School administration	17,407,082	17,618,149	19,429,225	(1,811,076)
Business	17,066,590	20,307,271	20,935,833	(628,562)
Plant operation and maintenance	33,063,114	39,940,961	39,975,616	(34,655)
Student transportation	15,731,270	18,250,128	19,757,255	(1,507,127)
Debt service	1,200,000	1,247,790	1,247,790	
Total Expenditures	276,882,772	319,676,858	362,800,507	(43,123,649)
Revenues in Excess of (Less Than) Expenditures	(4,489,815)	(36,182,189)	(18,053,793)	18,128,396
Other Financing Sources (Uses)				
Proceeds from sale of capital assets			88,425	88,425
Operating transfer in	1,189,817	1,470,065	1,771,423	301,358
Operating transfers out		(1,817,808)	(1,817,808)	
Total Other Financing Sources (Uses)	1,189,817	(347,743)	42,040	389,783
Revenues in Excess of (Less Than) Expenditures	\$ (3,299,998)	\$ (36,529,932)	\$ (18,011,753)	\$ 18,518,179

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

See page 46 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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
State sources - Other state revenues	\$ 7,189,547	\$ 9,755,807	\$ 10,865,454	\$ (1,109,647)
Governmental grants	24,684,262	23,313,142	32,715,817	(9,402,675)
Other sources	1,010,432	475,889	316,307	159,582
Total Revenues	32,884,241	33,544,838	43,897,578	(10,352,740)
Expenditures				
Instruction	21,613,538	23,444,420	31,067,618	(7,623,198)
Support services				
Student	1,881,115	2,639,907	2,913,101	(273,194)
Instruction staff	6,285,953	1,853,723	2,515,663	(661,940)
District administration		8,410	22,332	(13,922)
School administration	870,625	1,372,216	1,481,405	(109,189)
Business		1,038,716	1,886,769	(848,053)
Plant operation and maintenance	297,525	108,377	328,727	(220,350)
Student transportation		151,000	158,146	(7,146)
Community service activities	2,440,273	2,409,199	2,420,203	(11,004)
Total Expenditures	33,389,029	33,025,968	42,793,964	(9,767,996)
Revenues in Excess of (Less Than) Expenditures	(504,788)	518,870	1,103,614	(584,744)
Other Financing Sources (Uses)				
Operating transfers in	504,788	667,808	667,808	
Operating transfer out		(1,185,496)	(1,771,422)	585,926
Total Financing Sources (Uses)	504,788	(517,688)	(1,103,614)	585,926
Revenues in Excess of (Less Than) Expenditures	\$ -	\$ 1,182	\$ -	\$ 1,182

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

See page 46 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, 2012

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 are instructed not to budget these expenses for financial statement presentation. For the 2011-2012 fiscal year, these expenses totaled \$62.7 million and account for the revenue and expenditure overages in each expenditure category in the General Fund. On the expense side, beyond the effects of on-behalf payments, plant operation and maintenance showed a large favorable variance due primarily to unexpended funds for renovation and construction.

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.

Combining Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

Fayette County School District

June 30, 2012

	Permanent Funds					Total Nonmajor Governmental Funds
	SEEK Capital Outlay Fund	Anthony Dey Fund	Lexington Industrial School Fund	N. Isabel Schmidt Fund		
Assets						
Cash and cash equivalents	\$ 1,351,020	\$ 42,123	\$ 5,650	\$ 205,742	\$ 4,006,522	
Investments				342,443	342,443	
Accounts receivable - taxes	75,263				75,263	
Total Assets	<u>\$ 1,426,283</u>	<u>\$ 42,123</u>	<u>\$ 5,650</u>	<u>\$ 548,185</u>	<u>\$ 4,424,228</u>	
Fund Balances						
Restricted	\$ 1,426,283	\$ 42,123	\$ 5,650	\$ 548,185	\$ 595,958	
Unassigned					3,828,270	
Total Fund Balances	<u>\$ 1,426,283</u>	<u>\$ 42,123</u>	<u>\$ 5,650</u>	<u>\$ 548,185</u>	<u>\$ 4,424,228</u>	

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

Fayette County School District

Year Ended June, 30 2012

	<u>Building Fund</u>	<u>SEEK Capital Outlay Fund</u>	<u>Permanent Funds</u>			<u>Total Nonmajor Governmental Funds</u>
			<u>Anthony Dey Fund</u>	<u>Lexington Industrial School Fund</u>	<u>N. Isabel Schmidt Fund</u>	
Revenues						
Local sources						
Property taxes	\$ 26,219,483					\$ 26,219,483
Motor vehicle taxes	892,323					892,323
State sources						
SEEK program		\$ 3,399,458				3,399,458
Earnings on investments	9,127	2,529	\$ 108	\$ 16	\$ 535	12,315
Other sources			6,877	4,010	(3,423)	7,464
Total Revenues	<u>27,120,933</u>	<u>3,401,987</u>	<u>6,985</u>	<u>4,026</u>	<u>(2,888)</u>	<u>30,531,043</u>
Expenditures						
Community service activities			4,750	3,779	8,896	17,425
Revenues in Excess of (Less Than) Expenditures	<u>27,120,933</u>	<u>3,401,987</u>	<u>2,235</u>	<u>247</u>	<u>(11,784)</u>	<u>30,513,618</u>
Other Financing Uses						
Operating transfers out	<u>(25,985,960)</u>	<u>(1,000,430)</u>				<u>(26,986,390)</u>
Net Change in Fund Balances	<u>1,134,973</u>	<u>2,401,557</u>	<u>2,235</u>	<u>247</u>	<u>(11,784)</u>	<u>3,527,228</u>
Fund Balances, Beginning of Year	<u>291,310</u>	<u>430</u>	<u>39,888</u>	<u>5,403</u>	<u>559,969</u>	<u>897,000</u>
Fund Balances, End of Year	<u>\$ 1,426,283</u>	<u>\$ 2,401,987</u>	<u>\$ 42,123</u>	<u>\$ 5,650</u>	<u>\$ 548,185</u>	<u>\$ 4,424,228</u>

See Accompanying Independent Auditors' Report