Financial Statements and Reports
Required by the Single Audit Act

2013

Fayette County School District

For the Fiscal Year Ended June 30, 2013

Strothman+Co

Financial Statements and Reports
Required by the Single Audit Act

Fayette County School District

For the Fiscal Year Ended June 30, 2013

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

Independent Auditors' Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (Unaudited) on pages 4 through 10 and the budgetary comparison information on pages 44 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or to provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

STROTHMAN AND COMPANY

Louisville, Kentucky
November 12, 2013

Management's Discussion and Analysis (Unaudited)

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, 2013. 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 sixth year the District has prepared the annual financial report using the new financial reporting model. The district has implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* this fiscal year and will implement GASB Statement 65, *Items Previously Reported as Assets and Liabilities* next fiscal year. 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 $109.6 million in 2013 and $110.3 million in 2012.
- From 2012 to 2013, total revenue increased by 2.1%. Revenue from local sources increased 4.5% while revenue from the state increased by 3.5%. Revenues from grant sources decreased by 20.3%, while our total net position decreased by 4.9%.

Table One:
Total Revenue Comparison Analysis (Governmental Activities)

Revenues	2013	2012	Change
Local Sources:			
Property Taxes	$ 167,048,554	$ 158,484,915	$ 8,563,639
Motor Vehicle Taxes	11,196,766	10,596,900	599,866
Utility Taxes	21,782,444	21,391,794	390,650
Occupational Taxes	30,686,726	30,216,866	469,860
State Sources:			
SEEK Program	88,724,082	87,497,387	1,226,695
Other State Revenues	78,218,148	73,659,980	4,558,168
KSFCC Allocation	1,167,497	1,214,723	(47,226)
Grants	26,201,873	32,875,996	(6,674,123)
Earnings on Investments	345,248	313,834	31,414
Other Sources	6,563,668	6,620,708	(57,040)
Total Revenues	$ 431,935,006	$ 422,873,103	$ 9,061,903

Continued

Table Two
Total Expense Analysis (Governmental Activities)

	2013	2012	Change
Expenses			
Instruction	$ 266,184,653	$ 265,841,630	$ 343,023
Student support services	23,989,107	22,462,810	1,526,297
Instructional staff support services	19,154,729	18,794,612	360,117
District administrative support services	6,644,558	5,360,783	1,283,775
School administrative support services	22,961,294	20,910,630	2,050,664
Business support services	23,897,007	22,007,552	1,889,455
Plant operations and maintenance	40,767,266	40,310,616	456,650
Transportation	20,161,900	17,214,067	2,947,833
Food service	17,225		17,225
Facilities acquisition/construction	4,340,597	1,103,760	3,236,837
Community services	2,471,569	2,437,628	33,941
Interest	13,142,074	13,144,191	(2,117)
Loss on sale of fixed assets		44,140	(44,140)
Total Expenses	$ 443,731,979	$ 429,632,419	$ 14,099,560

Among major funds, the General Fund had approximately $361 million in revenue in FY 2013 and $345 million in revenue in FY 2012, 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 $385 million in expenditures in FY 2013 and $363 million in expenditures in FY 2012.

- In the first year of the state's more rigorous testing and accountability system, Fayette County Public Schools scored in the 69th percentile, ranking 54th out of 174 schools districts based on overall scores.

- Four Fayette County Public Elementary Schools were ranked among the top 25 in the state, four middle schools were ranked among the top 25 in the state and four high schools were ranked among the top 50 in the state.

- FCPS is one of four school districts in the nation that has been awarded a Spending Money Smartly grant by the Gates Foundation. Through this grant, we will be working with the District Management Council to examine budget and spending practices in FCPS and make the changes necessary to ensure the maximum academic return on investment.

- The National Education Association Foundation selected a Fayette County team led by the local teacher union president and the superintendent to join the second cohort of the NEA Foundation Institute for Innovation in Teaching and Learning, a national effort to address challenges facing public education.

Continued

- The Fayette County Board of Education received the 2013 Amici Linguarum (Friend of Language) Award from the Kentucky World Language Association.

- Fayette County Public Schools was named to the third annual Advanced Placement District Honor Roll, for simultaneously increasing access to AP course work while increasing the percentage of students earning scores of 3 or higher on AP exams.

- Fayette County is home to 12 schools that earned Energy Star Certifications for FY 2013: Arlington, Athens-Chilesburg, Harrison, James Lane Allen, Meadowthorpe, Russell Cave, Wellington, William Wells Brown and Yates elementary schools and Bryan Station, Jessie Clark and Leestown middle schools.

- 172 teachers have earned National Board Certifications.

- During fiscal year 2013, the district opened two new alternative programs: Carter G Woodson Academy, an all-male college preparatory academy, and The Stables, a partnership with Central Kentucky Riding for Hope.

- During fiscal year 2013, the following construction projects were completed: Yates Elementary renovation, Millcreek Elementary renovation, Locust Trace Agriscience Farm new construction and Wellington Elementary new construction.

- Fayette County Public Schools is currently finalizing construction renovation completion of Breckinridge, Cardinal Valley, Clays Mill and Mary Todd elementary schools, as well as Tates Creek Middle renovation and Russell Cave Road Warehouse adaptive re-use.

- The Chief Operating Officer in conjunction with the 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.

- Four Financial Services staff members are certified in Grants Management with one pending certification to be approved in 2014 fiscal year.

- Six staff members have successfully achieved their CSFO (Certified School Financial Officer) certification.

- Eleven staff members have received certification of CSFM (Certified School Financial Manager).

- The Financial Services administration team continues to focus on improving efficiencies in managing the expenses and revenues of the district to ensure the resources are available for all students to learn at the highest levels through sound financial management.

Continued

- The Superintendent has restructured the executive cabinet and added the positions of Chief Academic Officer, Chief Administrative Officer, and Chief of School Community & Government Support in addition to the Chief Operating Officer.

OVERVIEW OF FINANCIAL STATEMENTS

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

District-wide financial statements.

The District-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving.

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

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

Fund financial statements.

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

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

Continued

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

DISTRICT-WIDE FINANCIAL ANALYSIS

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

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

2013 District-Wide Net Position compared to 2012 follows:

Table Three:
2013 District-Wide Net Position Compared to 2012

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	$ 184,780,849	$ 145,455,098	$ 4,736,892	$ 5,095,992	$ 189,517,741	$ 150,551,090
Capital assets, net of depreciation	467,444,175	424,819,121	3,925,766	3,726,686	471,369,941	428,545,807
Total Assets	652,225,024	570,274,219	8,662,658	8,822,678	660,887,682	579,096,897
Short-term liabilities	38,027,258	34,725,065	540,437	822,216	38,567,695	35,547,281
Other liabilities	397,386,071	306,940,486			397,386,071	306,940,486
Total Liabilities	435,413,329	341,665,551	540,437	822,216	435,953,766	342,487,767
Net Position						
Net investment in capital assets	72,161,751	119,483,084	3,925,766	3,726,686	76,087,517	123,209,770
Restricted	130,152,399	48,965,589	4,196,455	4,273,776	134,348,854	53,239,365
Unrestricted	14,497,545	60,159,995			14,497,545	60,159,995
Total Net Position	$ 216,811,695	$ 228,608,668	$ 8,122,221	$ 8,000,462	$ 224,933,916	$ 236,609,130

Continued

Fayette County School District

Year Ended June 30, 2013

The following table presents a comparison and summary of revenue and expenditures for the fiscal years 2013 and 2012.

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues						
Charges for service	$ 182,874	$ 152,715	$ 7,756,858	$ 7,872,403	$ 7,939,732	$ 8,025,118
Operating grants & contributions	27,376,022	33,938,004	12,906,600	12,143,177	40,282,622	46,081,181
Capital grants & contributions	120,950	65,351	1,893,737	1,328,494	2,014,687	1,393,845
General revenues						
Local taxes	230,714,490	220,690,475			230,714,490	220,690,475
State sources	166,942,230	161,157,367			166,942,230	161,157,367
Earnings on investments	345,248	313,834	7,227	6,766	352,475	320,600
Loss on sale of capital assets		(44,140)		(14,680)		(58,820)
Other	6,253,192	6,555,357			6,253,192	6,555,357
Total Revenues	431,935,006	422,828,963	22,564,422	21,336,160	454,499,428	444,165,123
Expenses						
School operating & administration	430,589,905	416,444,088			430,589,905	416,444,088
School food services			20,559,329	19,810,660	20,559,329	19,810,660
After school program			1,883,334	1,643,768	1,883,334	1,643,768
Interest on debt service	13,142,074	13,144,191			13,142,074	13,144,191
Total Expenses	443,731,979	429,588,279	22,442,663	21,454,428	466,174,642	451,042,707
Change in Net Position	$ (11,796,973)	$ (6,759,316)	$ 121,759	$ (118,268)	$ (11,675,214)	$ (6,877,584)

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

Analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund indicate that there were no variations which would have a significant effect on future services or liquidity. The district budgeted approximately $355.7 million dollars in revenue and received approximately $355.8 million in general fund excluding on behalf revenue. Our financial position remains strong and we will continue to utilize trend analysis to help predict such variances in the future. We are one of four school districts in the nation that has been awarded a Spending Money Smartly grant by the Gates Foundation. Through this grant, we will be working with the District Management Council to examine budget and spending practices in Fayette County and make the changes necessary to ensure the maximum academic return on investment.

Continued

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 2013 with $21.9 million in contingency that is approximately 6%. The District is the second largest in the state with approximately 39,023 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 1126 Russell Cave Road, Lexington, KY 40505.

District-wide Financial Statements

Statement of Net Position

Fayette County School District

June 30, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 106,469,657	$ 3,132,116	$ 109,601,773
Investments	333,807		333,807
Accounts and grants receivable from outside sources	19,179,728	1,229,767	20,409,495
Bond proceeds receivable	53,337,748		53,337,748
Inventories	2,172,238	393,934	2,566,172
Prepaid expenses	49,547		49,547
Internal balances	18,925	(18,925)	
Capital assets, net of accumulated depreciation	467,444,175	3,925,766	471,369,941
Bond issuance costs	3,219,199		3,219,199
Total Assets	652,225,024	8,662,658	660,887,682
Liabilities			
Accounts payable and accrued liabilities due to outside sources	32,140,464	540,437	32,680,901
Interest payable	2,409,092		2,409,092
Deferred revenue	3,220,437		3,220,437
Estimated liability for workers' compensation benefits	257,265		257,265
Accrued sick leave			
Due within one year	1,293,540		1,293,540
Due in more than one year	3,801,085		3,801,085
School building revenue bonds			
Due within one year	17,190,000		17,190,000
Due in more than one year	368,719,045		368,719,045
Capital lease			
Due within one year	1,331,836		1,331,836
Due in more than one year	5,050,565		5,050,565
Total Liabilities	435,413,329	540,437	435,953,766
Net Position			
Net investment in capital assets	72,161,751	3,925,766	76,087,517
Restricted for:			
Capital projects	107,587,614		107,587,614
Other purposes	22,564,785	4,196,455	26,761,240
Unrestricted	14,497,545		14,497,545
Total Net Position	$ 216,811,695	$ 8,122,221	$ 224,933,916

See Accompanying Notes to Financial Statements

Statement of Activities

Fayette County School District

Year Ended June 30, 2013

		Program Revenues			
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Net (Expenses) Revenues**
Functions/Programs					
Governmental Activities					
Instruction	$ 266,184,653	$ 182,874	$ 26,208,525		$ (239,793,254)
Support Services					
Student	23,989,107				(23,989,107)
Instruction staff	19,154,729				(19,154,729)
District administration	6,644,558				(6,644,558)
School administration	22,961,294				(22,961,294)
Business	23,897,007				(23,897,007)
Plant operation and maintenance	40,767,266		1,167,497		(39,599,769)
Student transportation	20,161,900				(20,161,900)
Food Service	17,225				(17,225)
Facilities acquisition/construction	4,340,597			$ 120,950	(4,219,647)
Community service activities	2,471,569				(2,471,569)
Interest on long-term debt	13,142,074				(13,142,074)
Total Governmental Activities	443,731,979	182,874	27,376,022	120,950	(416,052,133)
Business-Type Activities					
Food service	20,559,329	5,978,965	12,717,675	1,893,737	31,048
After school program	1,883,334	1,777,893	188,925		83,484
Total Business-Type Activities	22,442,663	7,756,858	12,906,600	1,893,737	114,532
Total Activities	$ 466,174,642	$ 7,939,732	$ 40,282,622	$ 2,014,687	$ (415,937,601)

	Governmental Activities	**Business-Type Activities**	**Total**
Changes in Net Position			
Net Expenses	$ (416,052,133)	$ 114,532	$ (415,937,601)
General Revenues			
Taxes			
Property taxes	167,048,554		167,048,554
Motor vehicle taxes	11,196,766		11,196,766
Utility taxes	21,782,444		21,782,444
Occupational license tax	30,686,726		30,686,726
State sources			
SEEK program	88,724,082		88,724,082
Other state revenues and grants	78,218,148		78,218,148
Earnings on investments	345,248	7,227	352,475
Local revenues	6,253,192		6,253,192
Total General Revenues	404,255,160	7,227	404,262,387
Change in Net Position	(11,796,973)	121,759	(11,675,214)
Net Position, Beginning of Year	228,608,668	8,000,462	236,609,130
Net Position, End of Year	$ 216,811,695	$ 8,122,221	$ 224,933,916

See Accompanying Notes to Financial Statements

Fund Financial Statements

Balance Sheet - Governmental Funds

Fayette County School District

June 30, 2013

	General Fund	Special Revenue	Debt Service	Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 47,800,464		$ 26,455	$ 56,067,376	$ 2,575,362	$ 106,469,657
Investments					333,807	333,807
Accounts and grants receivable from outside sources	12,468,164	$ 6,624,914			86,650	19,179,728
Bond proceeds receivable				53,337,748		53,337,748
Inventory	2,172,238					2,172,238
Prepaid expenses	49,547					49,547
Interfund receivables	3,596,897					3,596,897
Due from other funds	18,925					18,925
Total Assets	$ 66,106,235	$ 6,624,914	$ 26,455	$ 109,405,124	$ 2,995,819	$ 185,158,547
Liabilities						
Accounts payable and accrued liabilities due to outside sources	$ 27,433,235	$ 482,230		$ 4,224,999		$ 32,140,464
Accrued sick leave	1,293,540					1,293,540
Deferred revenue	674,650	2,545,787				3,220,437
Interfund payables		3,596,897				3,596,897
Estimated liability for workers' compensation benefits	257,265					257,265
Total Liabilities	29,658,690	6,624,914		4,224,999		40,508,603
Fund Balances						
Assigned	3,353,796			61,618,883		64,972,679
Restricted	21,950,000		$ 26,455	43,561,242	$ 2,995,819	68,533,516
Non-spendable	2,221,785					2,221,785
Unassigned	5,521,964					5,521,964
Committed	3,400,000					3,400,000
Total Fund Balances	36,447,545		26,455	105,180,125	2,995,819	144,649,944
Total Liabilities and Fund Balances	$ 66,106,235	$ 6,624,914	$ 26,455	$ 109,405,124	$ 2,995,819	$ 185,158,547

Continued

Balance Sheet - Governmental Funds--Continued

Fayette County School District

June 30, 2013

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

Total fund balance per fund financial statements	$	144,649,944
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in the fund financial statements because they are not current financial resources, but they are reported in the statement of net position		467,444,175
Certain assets are not reported in the fund financial statements because they are not available to pay current period expenditures, but they are reported in the statement of net position		3,219,199
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 position		(398,501,623)
Net Position of Governmental Activities	$	216,811,695

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, 2013

	General Fund	Special Revenue	Debt Service	Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Local sources						
Property taxes	$ 140,455,581				$ 26,592,973	$ 167,048,554
Motor vehicle taxes	10,286,597				910,169	11,196,766
Utility taxes	21,782,444					21,782,444
Occupational license tax	30,686,726					30,686,726
State sources						
SEEK	85,263,612				3,460,470	88,724,082
Other state revenues	66,168,093	$ 9,768,542	$ 2,281,513			78,218,148
KSFCC allocation			1,167,497			1,167,497
Grants (principally United States government and local agencies)		26,201,873				26,201,873
Earnings on investments	160,456		161,354		23,438	345,248
Other sources	5,870,430	565,636		$ 120,950	6,652	6,563,668
Total Revenues	360,673,939	36,536,051	3,610,364	120,950	30,993,702	431,935,006
Expenditures						
Instruction	231,977,244	25,685,152				257,662,396
Support services						
Student	21,194,738	2,793,879				23,988,617
Instruction staff	16,950,064	2,200,662				19,150,726
District administration	6,622,171	14,606				6,636,777
School administration	20,316,952	1,797,574				22,114,526
Business	23,368,783	699,145				24,067,928

Continued

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

Fayette County School District

Year Ended June 30, 2013

	General Fund	Special Revenue	Debt Service	Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Plant operation and maintenance	40,606,528	160,738				40,767,266
Student transportation	21,751,683	7,558				21,759,241
Food Service		17,225				17,225
Community service activities		2,456,632			14,937	2,471,569
Facilities acquisition and construction				59,687,256		59,687,256
Debt service	1,698,786		29,107,397			30,806,183
Total Expenditures	384,486,949	35,833,171	29,107,397	59,687,256	14,937	509,129,710
Revenues in Excess of (Less Than) Expenditures	(23,813,010)	702,880	(25,497,033)	(59,566,306)	30,978,765	(77,194,704)
Other Financing Sources (Uses)						
Proceeds from capital leases	1,887,801					1,887,801
Proceeds from sale of bonds				110,782,822		110,782,822
Proceeds from sale of assets	71,661					71,661
Loss from investment of bonds				(85,059)		(85,059)
Operating transfers in	1,247,001	544,121	25,223,157	9,807,638		36,821,917
Operating transfers out	(3,167,742)	(1,247,001)			(32,407,174)	(36,821,917)
Total Other Financing Sources (Uses)	38,721	(702,880)	25,223,157	120,505,401	(32,407,174)	112,657,225
Net Change in Fund Balances	(23,774,289)		(273,876)	60,939,095	(1,428,409)	35,462,521
Fund Balances, Beginning of Year	60,221,834		300,331	44,241,030	4,424,228	109,187,423
Fund Balances, End of Year	$ 36,447,545	$	$ 26,455	$ 105,180,125	$ 2,995,819	$ 144,649,944

Continued

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

Fayette County School District

Year Ended June 30, 2013

Net Change in Fund Balances - Governmental Funds	$	35,462,521
Amounts reported for governmental activities in the statement of activities are different because		
Capital outlays are reported as expenditures in the fund financial statements because they use current financial resources, but they are presented as capital assets in the statement of net position and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed depreciation for the year		42,686,873
Bond issuance costs are recognized as expenditures of current financial resources in the fund financial statements but are capitalized in the statement of net position and amortized.		(907,831)
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.		(61,819)
Bond and capital lease principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position		(88,976,717)
Change in Net Position of Governmental Activities	$	(11,796,973)

See Accompanying Notes to Financial Statements

Statement of Net Position - Proprietary Funds

Fayette County School District

June 30, 2013

	Enterprise Funds		
	Food Service Fund	**After School Program Fund**	**Total**
Assets			
Current Assets			
Cash and cash equivalents	$ 2,384,886	$ 747,230	$ 3,132,116
Accounts receivable	1,220,432	9,335	1,229,767
Inventories	393,934		393,934
Total Current Assets	3,999,252	756,565	4,755,817
Noncurrent Assets			
Capital assets, net of accumulated depreciation	3,925,766		3,925,766
Total Assets	7,925,018	756,565	8,681,583
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	520,873	19,564	540,437
Due to other funds	18,925		18,925
Total Liabilities	539,798	19,564	559,362
Net Position			
Net investment in capital assets	3,925,766		3,925,766
Restricted	3,459,454	737,001	4,196,455
Total Net Position	$ 7,385,220	$ 737,001	$ 8,122,221

See Accompanying Notes to Financial Statements

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

Fayette County School District

Year Ended June 30, 2013

	Enterprise Funds		
	Food Service Fund	**After School Program Fund**	**Total**
Operating Revenues			
Lunchroom sales	$ 5,691,303		$ 5,691,303
Other operating revenues	287,662	$ 1,777,893	2,065,555
Total Operating Revenues	5,978,965	1,777,893	7,756,858
Operating Expenses			
Salaries, wages and fringe benefits	9,670,296	1,592,995	11,263,291
Material and supplies	10,203,045	290,339	10,493,384
Depreciation	647,456		647,456
Total Operating Expenses	20,520,797	1,883,334	22,404,131
Operating Loss	(14,541,832)	(105,441)	(14,647,273)
Non-Operating Revenues			
Federal grants	11,496,430		11,496,430
Donated commodities	1,008,669		1,008,669
State grants	172,870		172,870
Interest income	5,224	2,003	7,227
On-behalf revenues	1,048,375	188,925	1,237,300
Transfer of capital assets	885,068		885,068
Loss on sale of capital assets	(38,532)		(38,532)
Total Non-Operating Revenues	14,578,104	190,928	14,769,032
Change in Net Position	36,272	85,487	121,759
Net Position, Beginning of Year	7,348,948	651,514	8,000,462
Net Position, End of Year	$ 7,385,220	$ 737,001	8,122,221

See Accompanying Notes to Financial Statements

Statement of Cash Flows - Proprietary Funds

Fayette County School District

Year Ended June 30, 2013

	Enterprise Funds		
	Food Service Fund	**After School Program Fund**	**Total**
Cash Flows From Operating Activities			
Cash received from			
Lunchroom sales	$ 4,540,625		$ 4,540,625
Other activities	287,662	$ 1,792,993	2,080,655
Cash paid for			
Employees	(8,621,921)	(1,404,070)	(10,025,991)
Supplies	(9,394,889)	(284,282)	(9,679,171)
Net Cash Provided By (Used In) Operating Activities	(13,188,523)	104,641	(13,083,882)
Cash Flows From Noncapital Financing Activities			
Cash received for operating grants	11,669,301		11,669,301
Cash Flows From Investing Activities			
Receipt of interest income	5,224	2,003	7,227
Net Increase (Decrease) in Cash and Cash Equivalents	(1,513,998)	106,644	(1,407,354)
Cash and Cash Equivalents, Beginning of Year	3,898,884	640,586	4,539,470
Cash and Cash Equivalents, End of Year	$ 2,384,886	$ 747,230	$ 3,132,116
Reconciliation of Operating Loss to Net Cash Provided By (Used In) Operating Activities			
Operating loss	$ (14,541,832)	$ (105,441)	$ (14,647,273)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities			
Depreciation	647,456		647,456
On-behalf revenues	1,048,375	188,925	1,237,300
Donated commodities used in operations	1,008,669		1,008,669
Changes in operating assets and liabilities			
Accounts receivable	(1,150,678)	15,099	(1,135,579)
Inventory	87,439		87,439
Accounts payable	(287,836)	6,058	(281,778)
Due to/from other funds	(116)		(116)
Net Cash Provided By (Used In) Operating Activities	$ (13,188,523)	$ 104,641	$ (13,083,882)
Schedule of Non-Cash Activities			
Donated commodities received from federal government (Operating Activity)	$ 1,008,669		
Transfer of capital assets (Capital Activity)	$ 885,068		

See Accompanying Notes to Financial Statements

Statement of Fiduciary Net Position

Fayette County School District

June 30, 2013

	Private Purpose Trust Funds	Agency Funds	
		Marcie Thomason Fund	School Activity Funds
Assets			
Cash and cash equivalents	$ 381,006	$ 133,790	$ 2,620,311
Investments	986,841		
Accounts receivable			9,052
Due from Fayette County School District			37,789
Inventory			16,522
Total Assets	1,367,847	$ 133,790	$ 2,683,674
Liabilities			
Accounts payable			$ 42,436
Due to Fayette County School District			8,111
Due to student groups		$ 133,790	2,633,127
Total Liabilities		$ 133,790	$ 2,683,674
Net Position Held in Trust	$ 1,367,847		

See Accompanying Notes to Financial Statements

Statement of Changes in Fiduciary Net Position

Fayette County School District

June 30, 2013

	Private Purpose Trust Funds
Additions	
Contributions	$ 13,750
Gains on investments	94,991
Interest income	947
Total Additions and Change in Net Position	109,688
Net Position, Beginning of Year	1,258,159
Net Position, End of Year	$ 1,367,847

See Accompanying Notes to Financial Statements

Notes to Financial Statements

Note A--Reporting Entity

The Fayette County Board of Education (the "Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Fayette County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources. However, the District is not a component unit of any other governmental "reporting entity". Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the District. The financial statements presented herein do not include funds of groups and organizations which, although associated with the District, have not originated within the District itself such as booster clubs, parent-teacher associations, etc.

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

Based on the foregoing criteria, the financial statements of the Fayette County Board of Education Finance Corporation (the “Corporation”) are included in the accompanying financial statements. On December 10, 1990, the Board authorized the establishment of the Corporation (a nonprofit, non-stock, 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 position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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

Continued

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

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.

Effective for the fiscal year ended June 30, 2013, the District implemented 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

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

Additionally, the District implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* for the fiscal year ended June 30, 2013. The District has elected to delay until the 2014 fiscal year implementation of GASB Statement 65, *Items Previously Reported as Assets and Liabilities.* This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

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

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 position as an expense and as donated commodities revenue (nonoperating revenue).

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

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

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. 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 the following to be cash equivalents: demand deposits, undeposited funds and money market funds with an original maturity of 90 days or less, and other temporary investments related to unspent construction bond proceeds.

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

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, 2013 were $0.674 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:

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

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

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

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

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

Continued

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

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

All capital assets are recorded at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of $5,000 with the exception of technology purchases for which there is no threshold. This threshold was implemented on July 1, 2013. During the year ended June 30, 2013 the threshold was $1,000. Improvements are capitalized while the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

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

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

Continued

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

Payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current financial resources. However, claims and judgments, capital leases, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, 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 by 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, 2013 in the governmental funds balance sheet.

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

Designated Purpose	Amount
Construction	$ 3,400,000

Continued

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

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

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

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

Subsequent Events--In preparing these financial statements, management of the District has evaluated events and transactions for potential recognition or disclosure through November 12, 2013, 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

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 position 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, 2013, the District had the following investments:

Fund Type	Investment Type	Fair Value	Moody's Rating	Weighted Average Maturity in Years
Governmental	U.S. Treasury Notes	$ 333,807	AAA	1.79
Fiduciary-Private Purpose Trust	Mutual Funds	986,841	A	N/A
		$ 1,320,648		

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

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:

	Governmental Funds	Proprietary Funds	Total
Accounts and grants receivable from outside sources			
Accounts receivable	$ 6,119,997	$ 1,229,767	$ 7,349,764
Taxes receivable	6,434,817		6,434,817
Grants receivable	6,624,914		6,624,914
	19,179,728	1,229,767	20,409,495
Bond proceeds receivable	53,337,748		53,337,748
	$ 72,517,476	$ 1,229,767	$ 73,747,243

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.

Note F--Interfund Receivables and Payables

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

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	KETS Match	$ 544,121
Operating	General	Construction	Construction	2,623,622
Operating	Capital Outlay	Construction	Construction	4,000,000
Operating	Capital Outlay	Debt Service	Debt Service	1,869,487
Operating	Building Fund	Debt Service	Debt Service	23,353,670
Operating	Building Fund	Construction	Construction	3,184,017
Operating	Special Revenue	General Fund	Indirect Costs	1,247,001

Note G--Capital Assets

Capital asset activity for the year ended June 30, 2013 consisted of the following:

	Balance July 1, 2012	Additions	Disposals	Balance June 30, 2013
Governmental Activities				
Land	$ 6,671,297	$ 172,645		$ 6,843,942
Buildings and improvements	470,689,817	53,278,444	$ (17,326)	523,950,935
Technology equipment	21,697,788	3,159,000	(986,648)	23,870,140
Vehicles	19,056,249	1,990,561		21,046,810
General equipment	5,596,786	170,921	(146,941)	5,620,766
Construction in progress	105,309,367	55,174,015	(53,033,223)	107,450,159
	629,021,304	113,945,586	(54,184,138)	688,782,752
Less accumulated depreciation	(204,202,183)	(18,225,490)	1,089,096	(221,338,577)
Total Governmental Activities Capital Assets, Net	$ 424,819,121	$ 95,720,096	$ (53,095,042)	$ 467,444,175
Business-Type Activities				
Food service equipment	$ 7,063,280	$ 885,068	$ (192,031)	$ 7,756,317
Technology equipment	148,188		(767)	147,421
	7,211,468	885,068	(192,798)	7,903,738
Less accumulated depreciation	(3,484,782)	(647,455)	154,265	(3,977,972)
Total Business-Type Activities Capital Assets, Net	$ 3,726,686	$ 237,613	$ (38,533)	$ 3,925,766

Continued

Note G--Capital Assets--Continued

Depreciation expense for the year ended June 30, 2013 for governmental activities by function is summarized below:

Function	Amount
Instructional	$ 13,122,353
Instruction student support	1,184,657
District administration	364,510
Plant operations and maintenance	2,278,186
School administration	1,275,784
	$ 18,225,490

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, 2013:

Year Ending June 30	Amount
2014	$ 1,509,377
2015	1,255,409
2016	1,057,432
2017	853,648
2018	695,733
2019 and Thereafter	1,652,540
Total minimum lease payments	7,024,139
Less amount representing interest	641,738
Present value of net minimum lease payments	6,382,401
Capital lease obligations, due within one year	1,331,836
Capital Lease Obligations, Due After One Year	$ 5,050,565

Continued

Note H--Capital Lease Obligations--Continued

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

Class of Property	Net Book Value as of June 30, 2013
Buses	$ 10,200,627

Note I--School Building Revenue Bonds

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

Issue Date	Original Proceeds	Interest Rates	Balance June 30, 2013
2003A	17,505,000	2.000% - 4.500%	$ 225,000
2004A	13,505,000	2.500% - 3.750%	6,590,000
2004B	15,160,000	2.500% - 4.000%	8,480,000
2005A	52,710,000	3.500% - 5.000%	2,780,000
2005B	25,735,000	3.000% - 4.000%	20,320,000
2005C	13,065,000	3.500% - 4.000%	10,585,000
2007A	36,450,000	4.375% - 4.500%	35,245,000
2009A	41,150,000	1.600% - 5.375%	34,515,000
2009B	8,955,000	1.000% - 3.250%	6,155,000
2010A	13,440,000	1.000% - 3.500%	11,975,000
2010B	43,175,000	0.700% - 5.300%	39,635,000
2011A	52,175,000	2.500% - 5.000%	48,470,000
2011B	16,590,000	2.000% - 2.375%	16,315,000
2012A	42,310,000	3.000% - 4.000%	42,000,000
2012B	56,730,000	2.000% - 3.250%	54,560,000
2013A	49,270,000	2.000% - 5.000%	49,270,000
		School Building Revenue Bonds	387,120,000
		Less unamortized deferred losses	1,210,955
			$ 385,909,045

Continued

Note I--School Building Revenue Bonds--Continued

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

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

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

The bonds may be called prior to maturity by the District and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, for debt service as of June 30, 2013 (principal and interest) are as follows:

	Principal	Interest	Commission Participation	District's Portion
2014	$ 17,190,000	$ 14,632,070	$ 2,250,354	$ 29,571,716
2015	18,205,000	14,755,006	2,361,471	30,598,535
2016	18,995,000	14,152,051	2,361,469	30,785,582
2017	20,320,000	13,485,025	2,361,470	31,443,555
2018	21,120,000	12,758,011	2,361,470	31,516,541
2019-2023	115,610,000	51,490,945	11,170,918	155,930,027
2024-2028	116,330,000	27,225,094	8,199,010	135,356,084
2029-2033	54,965,000	6,545,471	3,088,939	58,421,532
2034	4,385,000	109,625	111,116	4,383,509
	$ 387,120,000	$ 155,153,298	$ 34,266,217	$ 508,007,081

During the year ended June 30, 2013, the District made principal payments of $16,169,528.

Continued

Note I--School Building Revenue Bonds--Continued

During fiscal year 2013, School Building Revenue Bond Series 2013A was approved on June 24, 2013, sold on June 26, 2013 and delivered on July 10, 2013 in the amount of $49,270,000 for the purposes of financing the renovations of three elementary schools and one middle school. The cash proceeds from the sale of these bonds were not received until July 2013. As such, total bond proceeds of $53,337,748 (including premiums) are reflected as a receivable on the District's financial statements.

Additionally, School building revenue bond Series 2012B was approved on June 25, 2012, sold on June 27, 2012 in the amount of $56,730,000 and delivered on July 17, 2012 for the purposes of financing the renovations of four elementary schools.

Note J--Accrued Sick Leave

In accordance with generally accepted governmental accounting principles, the District has recorded accrued sick leave as a liability in the District-wide statement of net position, but not on the governmental funds financial statements since the majority of these liabilities are not expected to be liquidated with current financial resources. Accrued sick leave, which has no maximum accumulation, is payable upon retirement at 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

Note K--Long-Term Liabilities

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2013 is as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities				
School building revenue bonds	$ 295,958,040	$ 106,000,000	$ 16,048,995	$ 385,909,045
Capital lease obligations	5,989,181	1,887,801	1,494,581	6,382,401
Estimated liability for workers' compensation benefits	221,532	498,974	463,241	257,265
Accrued sick leave	4,993,265	1,681,886	1,580,526	5,094,625
	$ 307,162,018	$ 110,068,661	$ 19,587,343	$ 397,643,336

Note L--On-Behalf Payments

For the year ended June 30, 2013, total payments of $68,349,950 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 insurance and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The District has purchased certain coverages which are retrospectively rated, including workers' compensation insurance.

Continued

Note O--Risk Management--Continued

Thru June 30, 2013 the District obtained worker's compensation, general liability and educators' legal liability from Kentucky School Boards Insurance Trust ("KSBIT") a public entity risk pool for school districts and other tax supported educational agencies which are members of the Kentucky School Boards Association ("KSBA"). The KSBIT policies have deductibles and aggregate caps of $600,000 per year with a $1,000 maintenance deductible. 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.

KSBIT has experienced actuarial deficits and financial difficulties. As a result, it ceased operating effective June 30, 2013. The District purchased replacement coverage from Kentucky Employers Mutual Insurance, a mutual insurance company owned by its policyholders, effective July 1, 2013. KSBIT apparently intends to assess members for shortfalls related to prior years. Based on information published by KSBIT, the District's assessment was approximately $2.8 million. This amount is based on a novation which is the highest runoff method and at the high end of the actuarial range. Most recent KSBIT audits indicate that the novation has not been approved by the Department of Insurance and other runoff methods are being explored. As such, because of all of the uncertainty from several stakeholders related to the ultimate responsibility of the District, management has not recorded any liability related to this matter until more facts are known related to what the final assessment may be under a revised assessment model.

The District participates in the Kentucky School Boards Insurance Trust Unemployment Compensation Fund to administer unemployment claims; however, risk has not been transferred to said fund.

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.

Continued

Note P--Retirement Plans--Continued

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 19.55% 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, 2013, 2012, and 2011 were approximately $11,319,000, $10,512,000 and $8,848,000, 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 10.855% 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 $26,804,962 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, 2013, this funding amounted to approximately $1,903,000.

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

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

Note Q--Deferred Compensation

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

Note R--Post-Employment Health Care Benefits

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

Note S--Commitments

As of June 30, 2013, the District had outstanding commitments for construction totaling $106,256,864.

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, 2013 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, 2013

	Budgeted Amounts			Variance with Final Budget Favorable
	Original	**Final**	**Actual**	**(Unfavorable)**
Revenues				
From local sources				
Property taxes	$ 141,540,183	$ 141,523,432	$ 140,455,581	$ (1,067,851)
Motor vehicle taxes	9,805,477	10,131,372	10,286,597	155,225
Utility taxes	24,158,533	22,810,625	21,782,444	(1,028,181)
Occupational license tax	30,202,432	30,672,640	30,686,726	14,086
Earnings on investments	307,800	200,000	160,456	(39,544)
Other sources	2,852,618	3,815,221	5,870,430	2,055,209
State sources				
SEEK	82,376,071	85,263,612	85,263,612	
Other state revenues	537,361	1,059,408	66,168,093	65,108,685
Total Revenues	291,780,475	295,476,310	360,673,939	65,197,629
Expenditures				
Instruction	156,317,384	182,540,449	231,977,244	(49,436,795)
Support services				
Student	18,296,173	18,984,472	21,194,738	(2,210,266)
Instruction staff	16,273,478	15,453,540	16,950,064	(1,496,524)
District administration	6,632,893	6,045,382	6,622,171	(576,789)
School administration	20,895,066	18,432,626	20,316,952	(1,884,326)
Business	24,666,945	24,510,212	23,368,783	1,141,429
Plant operation and maintenance	38,619,986	42,066,937	40,606,528	1,460,409
Student transportation	16,777,066	20,610,797	21,751,683	(1,140,886)
Debt service	1,345,064	1,698,786	1,698,786	
Total Expenditures	299,824,055	330,343,201	384,486,949	(54,143,748)
Revenues in Excess of (Less Than) Expenditures	(8,043,580)	(34,866,891)	(23,813,010)	11,053,881
Other Financing Sources (Uses)				
Proceeds from sale of fixed assets		75,000	71,661	(3,339)
Proceeds from capital leases		1,887,801	1,887,801	
Operating transfer in	1,043,580	1,500,000	1,247,001	(252,999)
Operating transfers out		(3,467,743)	(3,167,742)	300,001
Contingency	(21,950,000)	(21,950,000)		21,950,000
Total Other Financing Sources (Uses)	(20,906,420)	(21,954,942)	38,721	21,993,663
Revenues in Excess of (Less Than) Expenditures	$ (28,950,000)	$ (56,821,833)	$ (23,774,289)	$ 33,047,544

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, 2013

	Budgeted Amounts			Variance with Final Budget Favorable
	Original	**Final**	**Actual**	**(Unfavorable)**
Revenues				
State sources - Other state revenues	$ 1,280,035	$ 9,248,370	$ 9,768,542	$ (520,172)
Governmental grants	53,466,291	23,124,321	26,201,873	(3,077,552)
Other sources	538,484	385,764	565,636	(179,872)
Total Revenues	55,284,810	32,758,455	36,536,051	(3,777,596)
Expenditures				
Instruction	38,971,104	23,214,879	25,685,152	(2,470,273)
Support services				
Student	3,952,191	2,455,981	2,793,879	(337,898)
Instruction staff	5,548,027	1,861,108	2,200,662	(339,554)
District administration		8,910	14,606	(5,696)
School administration	995,785	1,358,493	1,797,574	(439,081)
Business	2,985,593	586,257	699,145	(112,888)
Plant operation and maintenance	305,378	108,804	160,738	(51,934)
Student transportation			7,558	(7,558)
Food Service		43,963	17,225	26,738
Community service activities	2,300,437	2,462,158	2,456,632	5,526
Total Expenditures	55,058,515	32,100,553	35,833,171	(3,732,618)
Revenues in Excess of (Less Than) Expenditures	226,295	657,902	702,880	44,978
Other Financing Sources (Uses)				
Operating transfers in		544,121	544,121	
Operating transfer out	(226,295)	(1,202,023)	(1,247,001)	(44,978)
Total Financing Sources (Uses)	(226,295)	(657,902)	(702,880)	(44,978)
Revenues in Excess of (Less Than) Expenditures	$ -	$ -	$ -	$ -

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, 2013

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 2012-2013 fiscal year, these expenses totaled $68.3 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, expenses that increased include Instruction, Student Support Services, Instructional Staff Service, District Admin Support, School Admin Support, Business Support Services, Plant Operations and Maintenance, Student Transportation and Debt Service.

Special Revenue Fund

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

See Accompanying Independent Auditors' Report

Combining Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

Fayette County School District

June 30, 2013

			Permanent Funds			
	Building Fund	**SEEK Capital Outlay Fund**	**Anthony Dey Fund**	**Lexington Industrial School Fund**	**N. Isabel Schmidt Fund**	**Total Nonmajor Governmental Funds**
Assets						
Cash and cash equivalents	$ 2,320,912	$ 1	$ 42,722	$ 7,575	$ 204,152	$ 2,575,362
Investments					333,807	333,807
Accounts receivable - taxes	86,576				74	86,650
Total Assets	$ 2,407,488	$ 1	$ 42,722	$ 7,575	$ 538,033	$ 2,995,819
Fund Balances						
Restricted	$ 2,407,488	$ 1	$ 42,722	$ 7,575	$ 538,033	$ 2,995,819
Total Fund Balances	$ 2,407,488	$ 1	$ 42,722	$ 7,575	$ 538,033	$ 2,995,819

See Accompanying Independent Auditors' Report

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

Fayette County School District

Year Ended June, 30 2013

			Permanent Funds			
	Building Fund	**SEEK Capital Outlay Fund**	**Anthony Dey Fund**	**Lexington Industrial School Fund**	**N. Isabel Schmidt Fund**	**Total Nonmajor Governmental Funds**
Revenues						
Local sources						
Property taxes	$ 26,592,973					$ 26,592,973
Motor vehicle taxes	910,169					910,169
State sources						
SEEK program		$ 3,460,470				3,460,470
Earnings on investments	15,750	7,031	$ 117	$ 20	$ 520	23,438
Other sources			6,908	3,559	(3,815)	6,652
Total Revenues	27,518,892	3,467,501	7,025	3,579	(3,295)	30,993,702
Expenditures						
Community service activities			6,426	1,654	6,857	14,937
Revenues in Excess of (Less Than) Expenditures	27,518,892	3,467,501	599	1,925	(10,152)	30,978,765
Other Financing Uses						
Operating transfers out	(26,537,687)	(5,869,487)				(32,407,174)
Net Change in Fund Balances	981,205	(2,401,986)	599	1,925	(10,152)	(1,428,409)
Fund Balances, Beginning of Year	1,426,283	2,401,987	42,123	5,650	548,185	4,424,228
Fund Balances, End of Year	$ 2,407,488	$ 1	$ 42,722	$ 7,575	$ 538,033	$ 2,995,819

See Accompanying Independent Auditors' Report

Reports Required by the Single Audit Act

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fayette County School District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 12, 2013.

Internal Control Over Financial Reporting

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

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

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

We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies (2013-1 through 2013-3).

Compliance and Other Matters

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

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

District's Response to Findings

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

Purpose of this Report

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

STROTHMAN AND COMPANY

Louisville, Kentucky
November 12, 2013

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

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

Strothman+Co

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

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

Compliance

We have audited Fayette County School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the Summary of Audit Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

STROTHMAN AND COMPANY

Louisville, Kentucky
November 12, 2013

Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards

Fayette County School District

Year Ended June 30, 2013

CFDA Name	CFDA Number	Pass Though Number	Actual Expenses
U.S. Department of Education			
Pass-through from:			
KY Department of Education			
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	33-540-3133	$ 18,816
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	33-540-3133T	2,516
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	33-540-3141	31,417
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	33-540-3143	155,239
			207,988
Education for Homeless Children and Youth	84.196A	33-540-3162	16,107
Education for Homeless Children and Youth	84.196A	33-540-3163	34,402
			50,509
Migrant Education_State Grant Program	84.011A	33-540-3111	22,475
Migrant Education_State Grant Program	84.011A	33-540-3112	61,723
Migrant Education_State Grant Program	84.011A	33-540-3112S	14,513
Migrant Education_State Grant Program	84.011A	33-540-3113	209,594
			308,305
Title I Grants to Local Educational Agencies	84.010A	33-540-3101T	21,038
Title I Grants to Local Educational Agencies	84.010A	33-540-3102	499,988
Title I Grants to Local Educational Agencies	84.010A	33-540-3102D	487,935
Title I Grants to Local Educational Agencies	84.010A	33-540-3102M	28,707
Title I Grants to Local Educational Agencies	84.010A	33-540-3102T	98,443
Title I Grants to Local Educational Agencies	84.010A	33-540-3103	7,344,724
Title I Grants to Local Educational Agencies	84.010A	33-540-3103M	1,605,434
Title I Grants to Local Educational Agencies	84.010	33-540-3201	37,184
Title I Grants to Local Educational Agencies	84.010	33-540-3202	402,055
Title I Grants to Local Educational Agencies	84.010	33-540-3203	13,016
Title I Grants to Local Educational Agencies	84.010	33-540-3203E	133,960
			10,672,484
English Language Acquisition Grants	84.365A	33-540-3451	15,845
English Language Acquisition Grants	84.365A	33-540-3451I	21,900
English Language Acquisition Grants	84.365A	33-540-3452	408,034
English Language Acquisition Grants	84.365A	33-540-3453	100,015
			545,794
Career and Technical Education -- Basic Grants to States	84.048	33-540-3482	2,898
Career and Technical Education -- Basic Grants to States	84.048	33-540-3482A	15,552
Career and Technical Education -- Basic Grants to States	84.048	33-540-3483	410,281
Career and Technical Education -- Basic Grants to States	84.048	33-540-3484	500
Career and Technical Education -- Basic Grants to States	84.048	33-540-3592A	64
			429,295

Continued

Schedule of Expenditures of Federal Awards--Continued

Fayette County School District

Year Ended June 30, 2013

CFDA Name	CFDA Number	Pass Though Number	Actual Expenses
School Improvement Grants	84.377A	33-540-4600A	69,037
School Improvement Grants	84.377A	33-540-4600B	156,742
School Improvement Grants	84.377A	33-540-4600C	706,887
School Improvement Grants	84.377A	33-540-5600B	22,398
			955,064
Improving Teacher Quality State Grants	84.367A	33-540-4012	764,298
Improving Teacher Quality State Grants	84.367A	33-540-4013	1,419,736
			2,184,034
Mathematics and Science Partnerships	84.366	33-540-3522	60,346
Educational Technology State Grants	84.318	33-540-4251	10,436
Fund for the Improvement of Education	84.215E	33-540-5321	291,539
Fund for the Improvement of Education	84.215K	33-540-5660K	73,074
Twenty-First Century Community Learning Centers	84.287	33-540-5501	19,590
Twenty-First Century Community Learning Centers	84.287	33-540-5501J	16,000
Twenty-First Century Community Learning Centers	84.287	33-540-5501M	33,162
Twenty-First Century Community Learning Centers	84.287	33-540-550W	61,870
Twenty-First Century Community Learning Centers	84.287	33-540-5502	265,278
Twenty-First Century Community Learning Centers	84.287	33-540-5502M	61,736
Twenty-First Century Community Learning Centers	84.287	33-540-5502S	15,000
Twenty-First Century Community Learning Centers	84.287	33-540-5503S	100
			472,736
Education Jobs Fund	84.410	33-540-4411	33,220
Language Grant Program	12.900	33-540-3442	14,489
Language Grant Program	12.900	33-540-3443	46,916
			61,405
Public Safety Partnership and Community Policing Grants	16.710	33-540-4501	47,436
Public Safety Partnership and Community Policing Grants	16.710	33-540-4502	42,500
			89,936
Race to the Top	84.413A	33-540-4521	104,944

Continued

Schedule of Expenditures of Federal Awards--Continued

Fayette County School District

Year Ended June 30, 2013

CFDA Name	CFDA Number	Pass Though Number	Actual Expenses
Special Education Cluster			
Special Education_Grants to States	84.027A	33-540-3371	23,021
Special Education_Grants to States	84.027A	33-540-3372	1,896,403
Special Education_Grants to States	84.027A	33-540-3372C	911,736
Special Education_Grants to States	84.027A	33-540-3372P	32,208
Special Education_Grants to States	84.027A	33-540-3373	5,611,090
Special Education_Grants to States	84.027A	33-540-3373C	141,475
Special Education_Grants to States	84.027A	33-540-3373P	89,056
Special Education_Preschool Grants	84.173A	33-540-3432C	28,557
Special Education_Preschool Grants	84.173A	33-540-3432P	4,372
Special Education_Preschool Grants	84.173A	33-540-3433	152,919
Special Education_Preschool Grants	84.173A	33-540-3433C	29,999
			8,920,836
Total Pass-through from KY Department of Education			25,471,945
Direct Programs			
Fund for the Improvement of Education	84.215L	33-540-5188	537,319
Foreign Language Assistance	84.293A	33-540-4160	23,613
Total Direct Programs from U.S. Department of Education			**560,932**
U.S. Department of Defense			
ROTC Language and Culture Training Grants	12.357	33-540-5042	10,188
ROTC Language and Culture Training Grants	12.357	33-540-5043	77,872
Total U.S. Department of Defense			**88,060**
U.S. Department of Agriculture			
National School Breakfast Program	10.553	034-165-999-0A	2,722,563
National School Lunch Program	10.555	034-165-999-0A	8,582,806
Fresh Fruit and Vegetable Program	10.582	12-3539-0-1-605	192,010
Total U.S. Department of Agriculture			**11,497,379**
U.S. Department of Health and Human Services			
Refugee and Entrant Assistance_Discretionary Grants	93.576	33-540-4202	8,268
Refugee and Entrant Assistance_Discretionary Grants	93.576	33-540-4203	22,724
Total U.S. Department of Health and Human Services			**30,992**
Total Expenditures of Federal Awards			**$ 37,649,308**

See Notes to Schedule of Expenditures of Federal Awards

Notes to Schedule of Expenditures of Federal Awards

Fayette County School District

June 30, 2013

Note A--Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Fayette County School District and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts present in this Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note B--Food Distribution

Nonmonetary assistance totaling $922,989 is reported in the Schedule at fair value of the commodities received as determined by the United States Department of Agriculture. The District no longer maintains a separate commodities inventory due to changes in program regulations.

Note C--Cluster Programs

The following CFDA numbers are considered cluster programs:

U.S. Department of Education

Title I, Part A Cluster	
Title I Grants to Local Educational Agencies	84.010
Title I Grants to Local Educational Agencies, Recovery Act	84.389
Special Education Cluster (IDEA)	
Special Education--Grants to States (IDEA, Part B)	84.027
Special Education--Preschool Grants (IDEA Preschool)	84.173
Special Education--Grants to States, Recovery Act	84.391A
Special Education--Preschool Grants, Recovery Act	84.392A
Educational Technology State Grants Cluster	
Education Technology State Grants (Enhancing Education Through Technology Program)	84.318
Education Technology State Grants, Recovery Act (Enhancing Education through Technology Program)	84.386
State Fiscal Stabilization Fund Cluster	
State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (Education Stabilization Fund)	84.394
State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act	84.397

Continued

Note C--Cluster Programs--Continued

Education of Homeless Children and Youth Cluster		
Education of Homeless Children and Youth	84.196	
Education of Homeless Children and Youth, Recovery Act	84.387	
School Improvement Grants Cluster		
School Improvement Grants	84.377	
School Improvement Grants, Recovery Act	84.388	
U.S. Department of Agriculture		
Child Nutrition Cluster		
National School Breakfast Program (NSBP)	10.553	
National School Lunch Program (NSLP)	10.555	
Special Milk Program for Children (SMP)		10.556
Summer Food Service Program for Children (SFSPC)	10.559	

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Fayette County School District

Year Ended June 30, 2013

Section I – Summary of Audit Results

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of the Fayette County School District (the "District").

2. Three significant deficiencies relating to the audit of the financial statements are reported.

3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs are reported.

5. The auditors' report on compliance for the major federal programs of the District expresses an unqualified opinion.

6. There are no findings to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The programs tested as major programs include:

Federal Grantor/Program Title	CFDA Number
U.S. Department of Agriculture	
National School Breakfast Program	10.553
National School Lunch Program	10.555

8. The threshold used for distinguishing between Type A and B programs was $1,129,479.

9. The District qualified to be audited as a low-risk auditee.

Continued

Section II--Findings – Financial Statement Audit

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

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

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

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

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

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

Item 2013-02 – Properly Record Accounts Payable

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

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

Effect: Accounts payable at year end were understated.

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

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

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

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

Item 2013-03 – Segregation of Duties

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

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

Effect: Clerks could potentially enter fraudulent invoices for payment.

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

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

Section III--Findings – Major Federal Programs Audit

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

Schedule of Prior Audit Findings

Schedule of Prior Audit Findings

Fayette County School District

Year Ended June 30, 2013

Section II--Findings – Financial Statement Audit

There are no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards.*

Section III--Findings – Major Federal Programs Audit

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