

District-wide and Fund Financial Statements
and Required Supplementary Information

Fayette County School District

June 30, 2018

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Independent Auditors' Report

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Fayette County School District (the "District") as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2018, and the respective changes in financial position and cash flows of its proprietary funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle – Adoption of GASB Accounting Standard

As discussed in Note W to the financial statements, the District adopted Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective as of July 1, 2017. The implementation of this accounting standard resulted in a restatement of prior year net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis (Unaudited) on pages 4 through 9, budgetary comparison information on pages 60 through 62 and the pension and other postemployment benefits liability and contributions information on pages 63 through 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The combining supplementary information on pages 71 and 72 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

STROTHMAN AND COMPANY

Louisville, Kentucky
November 14, 2018

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis (Unaudited)

Fayette County School District

Year Ended June 30, 2018

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, 2018. 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 sixteenth year the District has prepared the annual financial report using the new financial reporting model. The reporting model is a combination of both District-wide financial statements and fund financial statements. In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. GASB Statement No. 68 addresses accounting and financials for pensions that are provided to the employees through trusts that have defined characteristics. The District has implemented Governmental Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which requires reporting of the District's Other Postemployment Benefits ("OPEB") liability on the face of the financial statements and more extensive note disclosures and required supplementary information about OPEB liabilities. Cost-sharing governmental employers, such as the District, are required to report a net OPEB liability, OPEB expense and OPEB-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$104 million in 2018 and \$99 million in 2017.
- From 2017 to 2018, total revenue increased by 11.77%. Revenue from local sources increased 5.52% while revenue from the state increased by 20.07% and revenues from grant sources increased by 10.95%.

Table One:
Total Revenue Comparison Analysis (Governmental Activities)

Revenues	2018	2017	Change
Local Sources:			
Property Taxes	\$ 218,028,948	\$ 205,289,909	\$ 12,739,039
Motor Vehicle Taxes	13,546,003	12,695,798	850,205
Utility Taxes	22,331,673	21,576,737	754,936
Occupational Taxes	37,357,889	36,474,210	883,679
State Sources:			
SEEK Program	100,256,747	103,526,340	(3,269,593)
Other State Revenues	139,243,278	95,936,780	43,306,498
Grants	26,085,978	23,511,377	2,574,601
Earnings on Investments	672,337	808,209	(135,872)
Other Sources	8,541,753	6,654,276	1,887,477
Total Revenues	\$ 566,064,606	\$ 506,473,636	\$ 59,590,970

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

Fayette County School District

Year Ended June 30, 2018

Table Two
Total Expenditure Analysis (Governmental Funds)

Expenses	2018	2017	Change
Instruction	\$ 375,626,840	\$ 313,598,121	\$ 62,028,719
Student support services	27,608,060	27,003,931	604,129
Instructional staff support services	25,953,653	25,663,621	290,032
District administrative support services	8,054,423	7,522,436	531,987
School administrative support services	27,214,166	26,519,720	694,446
Business support services	26,590,650	25,965,025	625,625
Plant operations and maintenance	41,690,519	41,358,588	331,931
Transportation	23,736,846	21,309,451	2,427,395
Community services	2,973,866	2,949,479	24,387
Interest	17,124,527	17,938,376	(813,849)
Total Expenses	\$ 576,573,550	\$ 509,828,748	\$ 66,744,802

Among major funds, the General Fund had approximately \$483 million in revenue in FY 2018 (including on behalf) and \$429 million in revenue in FY 2017 (including on behalf), 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 \$480 million in expenditures in FY 2018 and \$426 million in expenditures in FY 2017, which also included on behalf figures in the General Fund.

Amazing students

- Four seniors tapped as Presidential Scholars
- National gold medal for Southside Tech at SkillsUSA Championships
- National FCCLA gold medals for Beaumont Middle School
- National TSA Chapter Excellence Award for Southern Middle
- National Beta Club's Service Award for Edythe J. Hayes Middle
- First-place honors in the Lexus Eco Challenge for SCAPA at Bluegrass
- National History Day prize for Winburn Middle School
- National journalism awards for Paul Laurence Dunbar High School
- Two National PTA "Reflections" honorees from Rosa Parks Elementary
- National contest medals for French students from SCAPA at Bluegrass
- Youth Salute's National Youth Leaders of the Year from Henry Clay and Paul Laurence Dunbar high schools
- Governor of Key Club's KY/TN District from Henry Clay High School
- 41 students were selected for the Governor's School for the Arts.
- Three students were selected for the Governor's School for Entrepreneurs.
- Tops in Kentucky on the National Spanish Examination from Henry Clay High School
- First-place awards at Kentucky FFA Convention for Locust Trace AgriScience Center
- Winners of the Kentucky Envirothon from Paul Laurence Dunbar High
- Best in State honors at STLP State Championships for Bryan Station High

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

Fayette County School District

Year Ended June 30, 2018

- Best of Fair honors in the Kentucky Science & Engineering Fair for Edythe J. Hayes Middle and Paul Laurence Dunbar High School
- Congressional Art Competition winners from Lafayette, Henry Clay, and Bryan Station high schools
- 21st consecutive State Speech Tournament title awarded to SCAPA at Bluegrass.
- Top team and individual honors in the Kentucky MATHCOUNTS contest for Winburn Middle School
- State's Outstanding Meet Competitor award for a swimmer from Tates Creek High School
- State marching band championship for Lafayette High School
- 70 students in 2017 Governor's Scholars Program

District-wide Accolades and Staff Kudos

- Milken Educator Award winner from Beaumont Middle School
- Superintendent on Education Week's list of "Leaders to Learn From"
- National Green Ribbon School award for Meadowthorpe Elementary
- National TSA Adviser of the Year at Southern Middle School
- Best Director honors at the Southeastern Theatre Conference for Lafayette High School
- Kentucky's High School Teacher of the Year from Paul Laurence Dunbar
- Teacher Achievement Award winners from Wellington Elementary, Beaumont Middle, Paul Laurence Dunbar High, and Lafayette High School
- Kentucky's History Teacher of the Year from Edythe J. Hayes Middle
- Kentucky Association of Family & Consumer Sciences' Teacher of the Year from Henry Clay High School
- State's Outstanding Elementary Science Educator at Wellington Elementary
- Kentucky's School Psychologist of the Year at district office (Special Education administrator)
- State-level awards from the Kentucky Society for Technology in Education for two Technology Department employees
- Awards from the Kentucky chapter of the American String Teachers Association for SCAPA at Bluegrass and Winburn Middle
- Innovation in Education awards (for history and civics) to Henry Clay and Lafayette high schools
- Excellence in Teaching honorees from the Fayette County Preschool Center, Beaumont Middle, and Paul Laurence Dunbar High School
- Fourteen more teachers earning National Board Certification

Fayette County School District

Year Ended June 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS

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

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 10 through 11 of this report.

Fund financial statements.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental 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 12 through 21 of this report.

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

The notes to the financial statements can be found on pages 22 through 59 of this report.

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

Fayette County School District

Year Ended June 30, 2018

DISTRICT-WIDE FINANCIAL ANALYSIS

The following is a summary of the Districts Net Position:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 120,272,785	\$ 114,833,755	\$ 8,850,245	\$ 9,738,069	\$ 129,123,030	\$ 124,571,824
Capital assets, net of depreciation	618,807,106	621,189,502	6,094,557	6,329,467	624,901,663	627,518,969
Total Assets	739,079,891	736,023,257	14,944,802	16,067,536	754,024,693	752,090,793
Deferred outflows of resources	66,441,560	34,840,628	4,468,844	946,184	70,910,404	35,786,812
Short-term liabilities	62,856,407	76,046,873	2,069,626	1,945,957	64,926,033	77,992,830
Other liabilities	739,039,216	538,395,636	11,822,705	3,922,939	750,861,921	542,318,575
Total Liabilities	801,895,623	614,442,509	13,892,331	5,868,896	815,787,954	620,311,405
Deferred inflows of resources	18,708,677	3,226,107	2,138,956	113,752	20,847,633	3,339,859
Net Position						
Net investment in capital assets	160,484,185	176,161,639	6,094,557	6,329,467	166,578,742	182,491,106
Restricted	31,987,343	15,891,322	(2,712,198)	4,701,605	29,275,145	20,592,927
Unrestricted	(207,554,377)	(38,857,692)			(207,554,377)	(38,857,692)
Total Net Position	\$ (15,082,849)	\$ 153,195,269	\$ 3,382,359	\$ 11,031,072	\$ (11,700,490)	\$ 164,226,341

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 16th year that the District is following GASB Statement No. 34 and comparing assets, liabilities and net position.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. GASB Statement No. 68 addresses accounting and financials for pensions that are provided to the employees through trusts that have defined characteristics.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows/inflows of resources and expenses/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to the periods of employ services. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities to a defined pension plan.

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

Fayette County School District

Year Ended June 30, 2018

This pronouncement was mandatory for fiscal periods beginning after June 15, 2015. The data from the Kentucky Teachers Retirement System and the County Employees Retirement System related to this implementation will have a material effect on the District's financial statements.

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

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 \$411 million dollars in revenue and received approximately \$415 million in general fund excluding on behalf revenue. The District also budgeted approximately \$407 million dollars in expenses and spent approximately \$363 million in general fund excluding on behalf expenses. Our financial position remains strong and we will continue to utilize trend analysis to help predict such variances in the future.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1 - June 30; other programs, i.e. some federal programs, operate on a different program calendar, but are reflected in the District overall budget. By Kentucky statute the budget must have a minimum 2% contingency. The District adopted a budget for 2017 with \$31.5 million in contingency that is approximately 6.5%. The District is the second largest in the state with approximately 41,342 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 Rodney Jackson, Director of Financial Services (859) 381-4141, John White, Senior Director of Administrative Services (859) 381-4165 or Emmanuel Caulk, Superintendent (859) 381-4104, or by mail at 1126 Russell Cave Road, Lexington, Kentucky 40505.

District-wide Financial Statements

Statement of Net Position

Fayette County School District

June 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 95,338,057	\$ 8,258,324	\$ 103,596,381
Accounts and grants receivable from outside sources	22,075,586	204,968	22,280,554
Inventories	2,856,434	389,661	3,246,095
Internal balances	2,708	(2,708)	
Capital assets net of accumulated depreciation	618,807,106	6,094,557	624,901,663
Total Assets	739,079,891	14,944,802	754,024,693
Deferred Outflows of Resources			
Debt refunding	6,890,425		6,890,425
Deferred outflows from other post-employment benefits	19,719,390	1,605,270	21,324,660
Deferred outflows from pension	39,831,745	2,863,574	42,695,319
Total Deferred Outflows of Resources	66,441,560	4,468,844	70,910,404
Liabilities			
Accounts payable and accrued liabilities due to outside sources	31,203,371	2,069,626	33,272,997
Interest payable	4,225,285		4,225,285
Deferred revenue	2,149,046		2,149,046
Accrued sick leave			
Due within one year	2,207,912		2,207,912
Due in more than one year	6,824,816		6,824,816
School building revenue bonds			
Due within one year	21,772,567		21,772,567
Due in more than one year	406,015,134		406,015,134
Unamortized Premium	18,238,190		18,238,190
Capital lease			
Due with one year	1,298,226		1,298,226
Due in more than one year	6,839,127		6,839,127
Net pension liability	124,480,467	5,873,568	130,354,035
Net other post-employment benefits liability	176,641,482	5,949,137	182,590,619
Total Liabilities	801,895,623	13,892,331	815,787,954
Deferred Inflows of Resources			
Deferred inflows from other post-employment benefits	3,814,224	303,841	4,118,065
Deferred inflows from pension	14,894,453	1,835,115	16,729,568
Total Deferred Inflows of Resources	18,708,677	2,138,956	20,847,633
Net Position			
Net investment in capital assets	160,484,185	6,094,557	166,578,742
Restricted	31,987,343	(2,712,198)	29,275,145
Unrestricted (Deficit)	(207,554,377)		(207,554,377)
Total Net Position	\$ (15,082,849)	\$ 3,382,359	\$ (11,700,490)

See Accompanying Notes to Financial Statements

Statement of Activities

Fayette County School District

Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instruction	\$ 375,626,840	\$ 273,955	\$ 27,430,433		\$ (347,922,452)
Support services					
Student	27,608,060				(27,608,060)
Instruction staff	25,953,653				(25,953,653)
District administration	8,054,423				(8,054,423)
School administration	27,214,166				(27,214,166)
Business	26,590,650				(26,590,650)
Plant operation and maintenance	41,690,519			\$ 2,873,930	(38,816,589)
Transportation	23,736,846				(23,736,846)
Community Services	2,973,866				(2,973,866)
Interest on Long Term Debt	17,124,527				(17,124,527)
Total Governmental Activities	576,573,550	273,955	27,430,433	2,873,930	(545,995,232)
Business-Type Activities					
Food service	26,529,599	3,566,199	17,215,716	2,236,202	(3,511,482)
After school program	3,326,555	3,168,730	351,592		193,767
Total Business-Type Activities	29,856,154	6,734,929	17,567,308	2,236,202	(3,317,715)
Total Activities	\$ 606,429,704	\$ 7,008,884	\$ 44,997,741	\$ 5,110,132	\$ (549,312,947)
			Governmental Activities	Business-Type Activities	Total
Changes in Net Position					
Net Revenues (Expenses)			\$ (545,995,232)	\$ (3,317,715)	\$ (549,312,947)
General Revenues					
Taxes					
Property taxes			218,028,948		218,028,948
Motor vehicle taxes			13,546,003		13,546,003
Utility taxes			22,331,673		22,331,673
Occupational license tax			37,357,889		37,357,889
State sources					
SEEK program			100,256,747		100,256,747
Other state revenues and grants			136,369,348		136,369,348
Earnings on investments			672,337		672,337
Local revenues			6,923,343		6,923,343
Total General Revenues			535,486,288		535,486,288
Change in Net Position			(10,508,944)	(3,317,715)	(13,826,659)
Net Position, Beginning of Year, as Restated			(4,573,905)	6,700,074	2,126,169
Net Position End of Year			\$ (15,082,849)	\$ 3,382,359	\$ (11,700,490)

See Accompanying Notes to Financial Statements

Fund Financial Statements

Balance Sheet - Governmental Funds

Fayette County School District

June 30, 2018

	General Funds	Special Revenue	Debt Service	Construction Funds	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 62,861,008	\$	490	\$ 30,852,814	\$ 1,623,745	\$ 95,338,057
Accounts and grants receivable from outside sources	14,082,333	7,968,580			24,673	22,075,586
Inventory	2,856,434					2,856,434
Interfund receivables	4,822,774					4,822,774
Due from other funds	2,708					2,708
Total Assets	<u>\$ 84,625,257</u>	<u>\$ 7,968,580</u>	<u>\$ 490</u>	<u>\$ 30,852,814</u>	<u>\$ 1,648,418</u>	<u>\$ 125,095,559</u>
Liabilities						
Accounts payable and accrued liabilities due to outside sources	\$ 29,652,519	1,012,997		\$ 509,733	\$ 28,122	\$ 31,203,371
Accrued sick leave	2,207,912					2,207,912
Deferred Revenue	424,650	1,329,634			394,762	2,149,046
Interfund payables		4,822,773				4,822,773
Total Liabilities	<u>32,285,081</u>	<u>7,165,404</u>	<u>509,733</u>	<u>509,733</u>	<u>422,884</u>	<u>40,383,102</u>
Fund Balances						
Non-spendable	2,856,434					2,856,434
Restricted		418,238	490	30,343,081	1,225,534	31,987,343
Assigned	541,568					541,568
Unassigned	48,942,174	384,938				49,327,112
Total Fund Balances	<u>52,340,176</u>	<u>803,176</u>	<u>490</u>	<u>30,343,081</u>	<u>1,225,534</u>	<u>84,712,457</u>
Total Liabilities and Fund Balances	<u>\$ 84,625,257</u>	<u>\$ 7,968,580</u>	<u>\$ 490</u>	<u>\$ 30,852,814</u>	<u>\$ 1,648,418</u>	<u>\$ 125,095,559</u>

See Accompanying Notes to Financial Statements

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

Fayette County School District

June 30, 2018

Total fund balance per fund financial statements	\$ 84,712,457
Amounts reported for governmental activities in the statement of Net Position are different because:	
Capital assets are not reported in the fund financial statement because they are not current financial resources but they are reported in the statement of net position	618,807,106
Certain assets are not reported in the fund financial statements because they are not available to pay current period expenditures, but they are reported in the statement of net position	6,890,425
Deferred inflows of resources-OPEB are not reported in the fund financial statements	(3,814,224)
Deferred inflows of resources-Pension are not reported in the fund financial statements	(14,894,453)
Deferred outflows of resources-OPEB are not reported in the fund financial statements	19,719,390
Deferred outflows of resources-Pension are not reported in the fund financial statements	39,831,745
Long-term sick leave liability is noncurrent and not reported in the fund financial statements	(6,824,816)
Bond interest payable is a noncurrent liability and is not reported in the fund financial statements	(4,225,285)
Bonds 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	(427,787,702)
Capital lease obligations are noncurrent liabilities and are not reported in the fund financial statements	(8,137,353)
Unamortized premium is a noncurrent liability and is not reported in the fund financial statements	(18,238,190)
Net pension liability is noncurrent and is excluded from the fund financial statements	(124,480,467)
Net OPEB liability is noncurrent and is excluded from the fund financial statements	(176,641,482)
Net Position of Governmental Activities	\$ (15,082,849)

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, 2018

	General Funds	Special Revenue	Debt Service	Construction Funds	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
From local sources						
Property taxes	\$ 186,821,053				\$ 31,207,895	\$ 218,028,948
Motor vehicle taxes	12,428,432				1,117,571	13,546,003
Utility taxes	22,331,673					22,331,673
Occupational license tax	37,357,889					37,357,889
State sources						
SEEK	96,564,471				3,692,276	100,256,747
Other state revenues	121,134,168	\$ 15,235,180	\$ 2,873,930			139,243,278
Grants (principally United States government and local agencies)	255,540	25,830,438				26,085,978
Earnings on investments	834,454					672,337
Other sources	5,138,607	1,851,130	(162,117)	\$ 207,561	1,344,455	8,541,753
Total Revenues	482,866,287	42,916,748	2,711,813	207,561	37,362,197	566,064,606
Expenditures						
Instruction						
Support services	308,360,744	30,218,505				338,579,249
Student						
Instruction staff	23,211,326	3,114,621			1,280,552	27,606,499
District administration	22,683,222	3,211,998			58,433	25,953,653
School administration	8,046,787	(165)				8,046,622
Business	26,847,123	367,043				27,214,166
Plant operation & maintenance	24,817,652	1,772,998				26,590,650
	41,384,733	265,223				41,649,956

Continued

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

Fayette County School District

Year Ended June 30, 2018

	General Funds	Special Revenue	Debt Service	Construction Funds	Other Nonmajor Governmental Funds	Total Governmental Funds
Transportation	23,190,809					23,190,809
Community service	241,788	2,724,222			7,856	2,973,866
Facilities acquisition/construction				19,984,095		19,984,095
Debt service	1,404,116		37,540,499			38,944,615
Total Expenditures	480,188,300	41,674,445	37,540,499	19,984,095	1,346,841	580,734,180
Revenues in Excess of (Less Than) Expenditures	2,677,987	1,242,303	(34,828,686)	(19,776,534)	36,015,356	(14,669,574)
Other Financing Sources (Uses)						
Proceeds from sale of assets				1,185,717		1,185,717
Proceeds from sale of bonds				30,870,000		30,870,000
Loss from investment of bonds	(7,969)			145,191		137,222
Operating transfers in	1,212,835	1,861,639	34,822,976	2,066,740		39,964,190
Operating transfers out	(2,840,447)	(2,300,766)			(34,822,977)	(39,964,190)
Proceeds from capital leases	2,193,472					2,193,472
Total Other Financing Sources (Uses)	557,891	(439,127)	34,822,976	34,267,648	(34,822,977)	34,386,411
Net Change in Fund Balances	3,235,878	803,176	(5,710)	14,491,114	1,192,379	19,716,837
Fund Balances,						
Beginning of Year	49,104,298		6,200	15,851,967	33,155	64,995,620
Fund Balances, End of Year	\$ 52,340,176	\$ 803,176	\$ 490	\$ 30,343,081	\$ 1,225,534	\$ 84,712,457

See Accompanying Notes to Financial Statements

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the District-Wide Statement of Activities

Fayette County School District

Year Ended June 30, 2018

Net Change in Total Fund Balances - Governmental Funds \$ 19,716,837

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 District-wide statement of net position and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeded depreciation for the year.

(2,306,008)

(12,982,589)

Difference in Long Term Debt

Gain and losses are not presented in this financial statement because they do not provide or use current financial resources but they are presented in the District-wide statement of activities

(76,388)

Differences in pension and other post-employment benefit expenses related to GASB 68 and GASB 75

(14,860,796)

Change in Net Position of Governmental Activities

\$ (10,508,944)

See Accompanying Notes to Financial Statements

Statement of Net Position - Proprietary Funds

Fayette County School District

June 30, 2018

	Enterprise Funds		
	Food Service Fund	After School Program Fund	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 6,701,943	\$ 1,556,381	\$ 8,258,324
Accounts receivable	109,772	95,196	204,968
Inventory	389,661		389,661
Total Current Assets	7,201,376	1,651,577	8,852,953
Noncurrent Assets			
Capital assets net of accumulated depreciation	6,094,557		6,094,557
Total Assets	13,295,933	1,651,577	14,947,510
Deferred Outflows of Resources			
Deferred Outflows OPEB	1,487,407	117,863	1,605,270
Deferred Outflows Pension	2,504,337	359,237	2,863,574
Total Deferred Outflows of Resources	3,991,744	477,100	4,468,844
Liabilities			
Current Liabilities			
Accounts payable & accrued liabilities	2,028,580	41,046	2,069,626
Due to other funds	2,708		2,708
Net Pension Liability	4,802,829	1,070,739	5,873,568
Net OPEB Liability	5,444,037	505,100	5,949,137
Total Liabilities	12,278,154	1,616,885	13,895,039
Deferred Inflow of Resources			
Deferred inflows OPEB	281,478	22,363	303,841
Deferred inflows Pension	1,687,878	147,237	1,835,115
Total Deferred Inflows of Resources	1,969,356	169,600	2,138,956
Net Position			
Invested in capital assets	6,094,557		6,094,557
Restricted (Deficit)	(3,054,390)	342,192	(2,712,198)
Total Net Position	\$ 3,040,167	\$ 342,192	\$ 3,382,359

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, 2018

	Enterprise Funds		
	Food Service Fund	After School Program Fund	Total
Operating Revenues			
Lunchroom sales	\$ 3,512,134		\$ 3,512,134
Other operating revenues	54,065	\$ 3,168,730	3,222,795
Total Operating Revenues	3,566,199	3,168,730	6,734,929
Operating Expenses			
Salaries wages and fringe	13,352,968	3,041,915	16,394,883
Material and supplies	12,181,418	284,640	12,466,058
Depreciation	979,225		979,225
Total Operating Expenses	26,513,611	3,326,555	29,840,166
Operating Loss	(22,947,412)	(157,825)	(23,105,237)
Non-operating Revenues			
Federal grants	15,740,153		15,740,153
Donated commodities	1,475,899		1,475,899
State grants	195,154		195,154
On behalf revenues	1,280,409	351,592	1,632,001
Loss on sale of capital assets	(15,988)		(15,988)
Total Non-operating Revenues	18,675,627	351,592	19,027,219
Transfers			
Governmental fund transfers	760,303		760,303
Change in Net Position	(3,511,482)	193,767	(3,317,715)
Net Position, Beginning of Year	6,551,649	148,425	6,700,074
Net Position, End of Year	<u>\$ 3,040,167</u>	<u>\$ 342,192</u>	<u>\$ 3,382,359</u>

See Accompanying Notes to Financial Statements

Statement of Cash Flows - Proprietary Funds

Fayette County School District

Year Ended June 30, 2018

	Enterprise Funds		
	Food Service Fund	After School Program	Total
Cash Flows From Operating Activities			
Cash received from:			
Lunchroom sales	\$ 3,540,465		\$ 3,540,465
Other activities	54,065	\$ 3,077,531	3,131,596
Cash paid for:			
Employees	(10,146,349)	(2,545,221)	(12,691,570)
Suppliers	(10,646,406)	(258,509)	(10,904,915)
Net Cash Provided By (Used In) Operating Activities	(17,198,225)	273,801	(16,924,424)
Cash Flows From Noncapital Financing Activities			
Cash received for operating grants	15,935,307		15,935,307
Net Increase in Cash and Cash Equivalent	(1,262,918)	273,801	(989,117)
Cash and Cash Equivalents, Beginning of Year	7,964,861	1,282,580	9,247,441
Cash and Cash Equivalents, End of Year	\$ 6,701,943	\$ 1,556,381	\$ 8,258,324
Reconciliation of Operating Loss to Net Cash Provided By (Used In) Operating Activities			
Operating Loss	\$ (22,947,412)	\$ (157,825)	\$ (23,105,237)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities			
Depreciation	979,225		979,225
On-behalf revenues	1,280,409	351,592	1,632,001
Donated commodities used in operations	1,475,899		1,475,899
Change in operating assets and liabilities			
Accounts receivable	28,331	(91,199)	(62,868)
Inventory	(37,266)		(37,266)
Deferred outflows	(3,270,979)	(251,681)	(3,522,660)
Accounts payable	97,538	26,131	123,669
Due to other funds	(1,159)		(1,159)
Net Pension Liability	1,814,491	136,138	1,950,629
Net OPEB Liability	1,499,994	118,145	1,618,139
Deferred inflows	1,882,704	142,500	2,025,204
Net Cash Provided By (Used In) Operating Activities	\$ (17,198,225)	\$ 273,801	\$ (16,924,424)
Schedule of Non-Cash Financing Activities			
Donated commodities received from federal government	\$ 1,475,899		\$ 1,475,899
Donated capital assets	\$ 760,303		\$ 760,303

See Accompanying Notes to Financial Statements

Statement of Fiduciary Net Position

Fayette County School District

June 30, 2018

	Private Purpose Trust Funds	Agency Funds			School Activity Funds
		Marcie Thomason Fund	Dorothy Smith Fund	John Price Fund	
Assets					
Cash and cash equivalents		\$ 214,855	\$ 19,342	\$ 40,121	\$ 3,650,668
Investments	\$ 1,139,512				
Accounts receivable					304,327
Inventory					17,170
Total Assets	\$ 1,139,512	\$ 214,855	\$ 19,342	\$ 40,121	\$ 3,972,165
Liabilities					
Accounts payable		\$ 113			\$ 288,140
Due to student groups		214,742	\$ 19,342	\$ 40,121	3,684,025
Total Liabilities		\$ 214,855	\$ 19,342	\$ 40,121	\$ 3,972,165
Net Position Held in Trust	\$ 1,139,512				

See Accompanying Notes to Financial Statements

Statement of Changes in Fiduciary Net Position

Fayette County School District

Year Ended June 30, 2018

	Private Purpose Trust Funds
Additions	
Contributions	\$ 45,970
Gains on investments	<u>41,431</u>
Total Additions	87,401
Deductions	
Community service activities	<u>58,942</u>
Change in Net Position	28,459
Net Position, Beginning of Year	<u>1,111,053</u>
Net Position, End of Year	<u><u>\$ 1,139,512</u></u>

See Accompanying Notes to Financial Statements

Notes to Financial Statements

Notes to Financial Statements

Fayette County School District

June 30, 2018

Note A--Reporting Entity

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

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

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

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

Note B--Summary of Significant Accounting Policies

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

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

Continued

Fayette County School District

June 30, 2018

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

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

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

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

The District has the following funds:

Governmental Fund Types

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

Continued

Fayette County School District

June 30, 2018

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

- (4) District Activity Funds, Fund 22-District activity funds are used to support co-curricular activities, and are not raised and expended by student groups. District activity funds accounted for in the district bank account are not subject to the Redbook and may be expended with more flexibility than school activity funds but must meet the "educational purpose" standard for all district expenditures.
- (5) 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.
- (6) The Facility Support Program (Building Fund) 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.
- (7) 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.
- (8) 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 Program 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.

Continued

Fayette County School District

June 30, 2018

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

The District applies all Governmental Accounting Standards Boards ("GASB") pronouncements to proprietary funds.

Fiduciary Fund Types (Agency and Private Purpose Funds)

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

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, occupational taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Occupational tax revenues are not susceptible to accrual because generally they are not measurable until received in cash. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Continued

Fayette County School District

June 30, 2018

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

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

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

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

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

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

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

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

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

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

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

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

Continued

Fayette County School District

June 30, 2018

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

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

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

The property tax rates assessed for the year ended June 30, 2018 were \$0.75 per \$100 valuation for real property and \$0.75 per \$100 valuation for business personal property. Motor vehicle tax was \$0.592 per \$100 valuation of motor vehicles.

The following is the District's property tax calendar:

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

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

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

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

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

Continued

Fayette County School District

June 30, 2018

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 hand held technology purchases for which the threshold is \$500. This threshold was implemented on July 1 2013. Improvements are capitalized while the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

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

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

Continued

Fayette County School District

June 30, 2018

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

Payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, capital leases, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. School building revenue bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves Under GASB Statement No. 54, fund balance is separated into five categories, as follows:

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

Encumbrances are reported as an assignment 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, 2018 in the governmental funds balance sheet.

Net Position--Net position represent 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 requisition, 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.

Continued

Fayette County School District

June 30, 2018

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

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.

Pensions--For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Kentucky Teachers Retirement System and the County Employees Retirement System and additions to/deductions from these pensions' fiduciary net position have been determined on the same basis as they are reported by those pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other than Pensions (OPEB)--For purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Kentucky Teachers Retirement System and the County Employees Retirement System and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the respective Systems. For this purpose, the Systems recognize benefit payments when due and payable, in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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 up to \$250,000 per financial institution, with the remainder covered by collateral agreements and collateral held at the Bank of New York Mellon in the District's name.

Fayette County School District

June 30, 2018

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;
- (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 as security obligations 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, 2018, the District had the following investments:

<u>Fund Type</u>	<u>Investment Type</u>	<u>Fair Value</u>	<u>Moody's Rating</u>	<u>Weighted Average Maturity in Years</u>
Fiduciary-Private Purpose Trust	Mutual Funds	\$ 1,139,512	A	N/A

Continued

Fayette County School District

June 30, 2018

Note D--Investments--Continued

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

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

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

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

Fair Value Measurement--The District's investments are measured and reported at fair value and classified according to the following hierarchy:

- Level 1 – Investments reflect prices quoted in active markets.
- Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 – Investments reflect prices based upon unobservable sources.

Investments by Fair Value Level:

		<u>Fair Value</u>	<u>Quoted Prices in Markets for Identical Assets - Level 1</u>
Fiduciary-Private Purpose Trust	Mutual Funds	<u>\$ 1,139,512</u>	<u>\$ 1,139,512</u>

Fayette County School District

June 30, 2018

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 Activities/ Governmental Funds	Business-Type Activities/ Proprietary Funds	Total
Accounts and grants receivable from outside sources			
Accounts receivable	\$ 4,094,326	\$ 204,968	\$ 4,299,294
Taxes receivable	11,367,091		11,367,091
Grants receivable	6,614,169		6,614,169
	<u>\$ 22,075,586</u>	<u>\$ 204,968</u>	<u>\$ 22,280,554</u>

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

Note F--Interfund Receivables and Payables

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

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	KETS Match	\$ 773,707
Operating	General	Construction	Construction	2,066,740
Operating	Capital Outlay	Debt Service	Debt Service	2,856,694
Operating	Building Fund	Debt Service	Debt Service	31,966,283
Operating	Special Revenue	General Fund	Indirect Costs	1,154,754
Operating	Special Revenue	Special Revenue	FFF transfer	1,087,931

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2018

Note G--Capital Assets

Capital Asset activity for the year ended June 30, 2018 consisted of the following:

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
<u>Governmental Activities</u>				
Land	\$ 20,528,445			\$ 20,528,445
Buildings and improvements	754,396,678	\$ 31,842,375		786,239,053
Technology equipment	20,635,036	403,641	\$ (2,672,396)	18,366,281
Vehicles	24,128,507	2,147,461	(1,384,471)	24,891,497
General equipment	5,271,746	15,178	(138,504)	5,148,420
Construction in progress	86,599,933	7,882,142	(20,995,201)	73,486,874
	911,560,345	42,290,797	(25,190,572)	928,660,570
Less accumulated depreciation	(290,370,844)	(23,601,604)	4,118,984	(309,853,464)
Total Governmental Activities Capital Assets, Net	\$ 621,189,501	\$ 18,689,193	\$ (21,071,588)	\$ 618,807,106
<u>Business-Type Activities</u>				
Food service equipment	\$ 12,721,073	\$ 732,542	\$ (90,331)	\$ 13,363,284
Technology equipment	153,503	27,761	(20,955)	160,309
	12,874,576	760,303	(111,286)	13,523,593
Less accumulated depreciation	(6,545,109)	(979,225)	95,298	(7,429,036)
Total Business-Type Activities Capital Assets, Net	\$ 6,329,467	\$ (218,922)	\$ (15,988)	\$ 6,094,557

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2018

Note G--Capital Assets--Continued

Depreciation expense for the year ended June 30, 2018 for governmental activities by function is listed below:

<u>Function</u>	<u>Amount</u>
Instructional	\$ 22,700,694
Student Support Services	1,910
District administration	12,564
Plant operations and maintenance	61,368
Student transportation	825,068
	<u>\$ 23,601,604</u>

Note H--Capital Lease Obligations

The following is a schedule by years of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2018:

<u>Year Ending June 30</u>	<u>Amount</u>
2019	\$ 1,501,941
2020	1,347,339
2021	1,247,906
2022	1,247,691
2023	867,715
2024 and thereafter	<u>2,849,506</u>
Total minimum lease payments	9,062,098
Less amount representing interest	<u>924,745</u>
Present value of net minimum lease payments	8,137,353
Capital lease obligations, due within one year	<u>1,298,226</u>
Capital Lease Obligations, Due After One Year	<u><u>\$ 6,839,127</u></u>

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2018

Note H--Capital Lease Obligations--Continued

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

<u>Class of Property</u>	<u>Net Book Value as of June 30, 2018</u>
Buses	<u>\$ 9,009,880</u>

Note I--School Building Revenue Bonds

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

<u>Issue Date</u>	<u>Original Proceeds</u>	<u>Interest Rates</u>	<u>Balance June 30, 2018</u>
2009B	\$ 8,955,000	1.000% - 3.250%	\$ 1,100,000
2010A	13,440,000	1.000% - 3.500%	6,195,000
2011A	52,175,000	2.500% - 5.000%	38,220,000
2011B	16,590,000	2.000% - 2.375%	13,090,000
2012A	42,310,000	3.000% - 4.000%	36,875,000
2012B	56,730,000	2.000% - 3.250%	42,975,000
2013A	49,270,000	2.000% - 5.000%	48,555,000
2014A	30,260,000	2.000% - 5.000%	23,870,000
2014B	13,935,000	2.000% - 4.750%	13,860,000
2015A	30,230,000	5.000%	27,365,000
2015B	35,615,000	3.000% - 4.000%	34,615,000
2015C	21,425,000	4.000% - 4.000%	4,667,701
2015D	101,665,000	3.000% - 5.000%	101,065,000
2015E	7,935,000	5.000%	4,465,000
2018A	30,870,000	4.000%	30,870,000
School Building Revenue Bonds			<u><u>\$ 427,787,701</u></u>

Continued

Fayette County School District

June 30, 2018

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 District 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.

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, 2018 (principal and interest) are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Commission Participation</u>	<u>District's Portion</u>
2019	\$ 21,772,567	\$ 17,460,578	\$ 3,259,017	\$ 35,974,128
2020	18,745,134	16,724,346	3,179,802	32,289,678
2021	22,955,000	15,921,419	3,098,065	35,778,354
2022	23,885,000	15,005,544	3,098,066	35,792,478
2023	24,880,000	14,080,494	3,098,065	35,862,429
2024-2028	124,335,000	55,063,125	12,761,108	166,637,017
2029-2033	112,280,000	30,277,019	7,651,042	134,905,977
2034-2038	78,935,000	7,298,284	3,483,648	82,749,636
	<u>\$ 427,787,701</u>	<u>\$ 171,830,809</u>	<u>\$ 39,628,813</u>	<u>\$ 559,989,697</u>

During the year ended June 30 2018, the District made principal payments of \$20,415,972.

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2018

Note I--School Building Revenue Bonds--Continued

School Building Revenue Bonds Series 2018A were approved on February 26, 2018, sold May 9, 2018 and delivered May 30, 2018 in the amount of \$30,870,000, for the purposes of constructing a new elementary located at 4701 Athens Boonesboro Road, Lexington Kentucky 40509 and acquisition of real property and existing real property improvements located at 1555 Georgetown Road, Lexington Kentucky 40511.

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 since the majority of these liabilities are not expected to be liquidated with expendable available financial resources. Accrued sick leave, which has no maximum accumulation, is payable upon retirement at 30% of the value of accumulated sick leave.

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

Note K--Long-Term Liabilities

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2018 is as follows:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2018</u>
<u>Governmental Activities</u>				
School building revenue bonds	\$ 417,333,673	\$ 30,870,000	\$ 20,415,972	\$ 427,787,701
Capital lease obligations	7,173,995	2,193,472	1,230,114	8,137,353
Accrued sick leave	7,111,273	4,015,281	2,093,826	9,032,728
	<u>\$ 431,618,941</u>	<u>\$ 37,078,753</u>	<u>\$ 23,739,912</u>	<u>\$ 444,957,782</u>

Note L--On-Behalf Payments

For the year ended June 30, 2018, total payments of \$124,209,322 were made for life insurance, health insurance, Kentucky Teachers Retirement System ("TRS") 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.

Fayette County School District

June 30, 2018

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 cases presently in progress.

Note O--Risk Management

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

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

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2018

Note O--Risk Management--Continued

Fayette County's workers compensation assessment is \$2,537,694 and its property and liability assessment is \$583,416. The District took a three-year pay back on the property and liability assessment and a seven-year pay back on the workers' compensation assessment as there are no financing costs associated with these options. The payback plan required 40% down on property and liability and 25% down on workers' compensation, with the workers' compensation balance being paid in equal payments over 6 remaining years. The property and liability payback concluded in August 2016. The remaining payments on this assessment as of June 30, 2018 are as follows:

<u>Due August 31</u>	
2019	\$ 317,212
2020	<u>317,212</u>
	<u>\$ 634,424</u>

The District will budget for these payments annually and pay the remaining balance on or before August 31st of each year. A settlement was reached between the Kentucky League of Cities and schools participating in the KSBIT program.

Note P--Retirement Plans

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

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

Plan members are required to contribute 5% of their annual covered compensation and the District is required to contribute at an actuarially determined rate. All new members hired after August 31, 2008 are required to contribute 6% at an actuarially determined rate. The current rate for employer match is 19.18% 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, 2018, 2017, and 2016 were \$10,790,078, \$10,348,092 and \$9,559,908, respectively, equal to the required contribution for that year.

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2018

Note P--Retirement Plans--Continued

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

Certified Employees--Certified employees are covered by the Kentucky Teachers' Retirement System ("TRS"), a cost-sharing multiple-employer defined benefit plan. TRS 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 12.855% 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 \$70,468,176, 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, 2018, this funding amounted to approximately \$1,738,325.

TRS 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--Commitments

As of June 30, 2018, the District had outstanding commitments for construction approximating \$20,184,000.

Fayette County School District

June 30, 2018

Note S--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 T--Leases

The District has a piece of equipment under an operating lease, which expired on June 30, 2018. Rent expenses for the year ended June 30, 2018 was \$558,981.

Note U--Pension Plans

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General Information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description--Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. 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 from <http://kyret.ky.gov>.

Continued

Fayette County School District

June 30, 2018

Note U--Pension Plans--Continued

Benefits provided--CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions--Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Continued

Fayette County School District

June 30, 2018

Note U--Pension Plans--Continued

General Information About the Teachers' Retirement System ("TRS")

Plan description--Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System (TRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at http://www.trs.ky.gov/05_publications/index.htm.

Benefits provided--For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Employees with an account established prior to July 1, 2002 receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. TRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are 1.5% annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions--Contribution rates are established by KRS. Employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 12.855% of their salaries to the System.

Continued

Fayette County School District

June 30, 2018

Note U--Pension Plans--Continued

Medical Insurance Plan

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon request.

Plan description--In addition to the pension benefits described above, KRS 161.675 requires TRS to provide post-employment healthcare benefits to eligible employees and dependents. The TRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Funding policy--In order to fund the post-retirement healthcare benefit, 6% of the gross annual payroll of employees before July 1, 2008 is contributed. 3% is paid by member contributions and .75% from Commonwealth appropriation and 2.25% from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for TRS because the Commonwealth of Kentucky provides the pension support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$ 130,354,035
Commonwealth's proportionate share of the TRS net pension liability associated with the District	<u>1,983,376,595</u>
	<u>\$ 2,113,730,630</u>

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2018

Note U--Pension Plans--Continued

The net pension liability for each plan was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the District's proportion was 2.227% percent.

For the year ended June 30, 2018, the District recognized pension expense of \$3,615,083 related to CERS and \$141,186,002 related to TRS, of which \$34,934,106 was recognized on the fund financial statements as it represented amounts paid on the District's behalf during the year. The District also recognized revenue of \$141,186,002 (TRS Sched B) for TRS support provided by the Commonwealth.

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 161,681	\$ 3,308,944
Changes of assumptions	24,053,851	
Net difference between projected and actual earnings on pension plan investments	10,323,882	8,711,554
Changes in proportion and differences between District contributions and proportionate share of contributions	-	4,709,070
District contributions subsequent to the measurement date	<u>8,155,905</u>	
Total	<u><u>\$ 42,695,319</u></u>	<u><u>\$ 16,729,568</u></u>

\$10,348,092 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30:</u>	
2019	\$ 7,431,673
2020	8,330,299
2021	3,721,692
2022	(1,673,815)

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2018

Note U--Pension Plans--Continued

Actuarial assumptions--The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.25%	3.00%
Projected salary increases	4.00%	3.50-7.30%
Investment rate of return, net of investment expense and inflation	7.50%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

For TRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025 with a setback of 2 years for males and 1 year for females.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2010 through 2015, is outlined in a report dated June 30, 2017. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Continued

Fayette County School District

June 30, 2018

Note U--Pension Plans--Continued

For TRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	42%	4.4%
Non U.S. Equity	20%	5.3%
Fixed Income	16%	1.5%
High Yield Bonds	9%	3.6%
Real Estate	5%	4.4%
Alternatives	6%	6.7%
Cash	2%	1.5%
Total	<u>100%</u>	

Discount rate--For CERS, the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.5%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For TRS, the discount rate used to measure the total pension liability was 4.49%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2038 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate ("SEIR") that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2018

Note U--Pension Plans--Continued

Sensitivity of CERS and TRS proportionate share of net pension liability to changes in the discount rate-- The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 109,497,389	\$ 130,354,035	\$ 151,210,681
TRs	3.49%	4.49%	5.49%
District's proportionate share of net pension liability	\$ -	\$ -	\$ -

*Pension plan fiduciary net position--*Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and TRS.

Note V--Other Post-Employment Benefits ("OPEB")

General Information about the OPEB Plans

Plan description – Teaching-certified employees of the Kentucky School District are provided OPEBs through the Teachers' Retirement System of the State of Kentucky ("TRS")—a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes ("KRS"). TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://trs.ky.gov/financial-reports-information>.

The State reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance and Life Insurance Plans. The following information is about the TRS plans:

Continued

Fayette County School District

June 30, 2018

Note V--Other Post-Employment Benefits ("OPEB")--Continued

Medical Insurance Plan

Plan description – In addition to the OPEB benefits described above, Kentucky Revised Statute 161.675 requires TRS to provide post-employment healthcare benefits to eligible members and dependents. The TRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

Benefits provided – To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Contributions – In order to fund the post-retirement healthcare benefit, 7.50% of the gross annual payroll of members is contributed. 3.75% is paid by member contributions and .75% from State appropriation and 3.00% from the employer. The State contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Postemployment Benefits ("OPEB") plan for members that cover all regular full-time members employed in non-hazardous duty positions of any State department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the District reported a liability of \$182,590,619 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was 2.227%, which was the first year of measurement.

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2018

Note V--Other Post-Employment Benefits ("OPEB")--Continued

The amount recognized by the District as its proportionate share of the OPEB liability is as follows:

District's proportionate share of the CERS OPEB liability	\$ 44,770,619
District's proportionate share of the TRS OPEB liability	<u>137,820,000</u>
	<u>\$ 182,590,619</u>

For the year ended June 30, 2018, the District recognized OPEB expense of \$3,283,852. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		\$ 124,348
Changes of assumptions	\$ 9,741,804	
Net difference between projected and actual earnings on pension plan investments		3,889,836
Change in proportion and differences between District contributions and proportionate share of contributions		103,881
District contributions subsequent to the measurement date	<u>11,582,856</u>	
Total	<u>\$ 21,324,660</u>	<u>\$ 4,118,065</u>

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2018

Note V--Other Post-Employment Benefits ("OPEB")--Continued

Of the total amount reported as deferred outflows of resources related to OPEB, \$8,155,905 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ending June 30:	
2019	\$ 828,855
2020	828,855
2021	828,855
2022	828,855
2023	1,801,814
Thereafter	506,505

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS	TRS
Inflation	2.30%	3.00%
Projected Salary increases	3.05%	3.50 - 7.20%
Investment rate of return	6.25%	8.00%
Real Wage Growth	2.00%	0.50%
Wage Inflation		3.50%
Healthcare trend rates		
Under 65	7.25% at 1/1/19 decreasing to an ultimate rate of 4.05% by FY 2032	7.75% for FY 2017 to an ultimate rate of 5.00% by FY 2023 5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Ages 65 and Older	5.10% at 1/1/19 decreasing to an ultimate rate of 4.05% by FY 2030	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Medicare Part B Premiums		3.56%
Municipal Bond Index Rate	3.56%	8.00%
Discount Rate	5.84%	8.00%
Single Equivalent Interest Rate		8.00%, net of OPEB plan investment expense, including inflation.

Continued

Fayette County School District

June 30, 2018

Note V--Other Post-Employment Benefits ("OPEB")--Continued

TRS mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement. The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

CERS mortality rates for active members were based on the RP-2000 Combined Mortality Table projected to 2013 with projection scale BB (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 set back for one year for females was used. For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	60.00%	5.10%
Fixed Income	9.00%	1.20%
High Yield Bonds	10.00%	4.30%
Real Estate	4.50%	4.00%
Private Equity	5.50%	6.60%
Cash	1.00%	0.50%
Other Categories*	<u>10.00%</u>	3.30%
Total	<u><u>100.0%</u></u>	

* Modeled as 50% High Yield and 50% Bank Loans

Continued

Fayette County School District

June 30, 2018

Note V--Other Post-Employment Benefits ("OPEB")--Continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	<u>100.0%</u>	

Discount rate--For CERS, the discount rate used to measure the total OPEB liability was 5.84%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

Fayette County School District

June 30, 2018

Note V--Other Post-Employment Benefits ("OPEB")--Continued

Sensitivity of CERS and TRS proportionate share of net OPEB liability to changes in the discount rate—
 The following table presents the District's proportionate share of the collective net OPEB liability, calculated using the discount rates selected by each pension system, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	4.84%	5.84%	6.84%
District's proportionate share of net OPEB liability	\$ 37,104,417	\$ 44,770,619	\$ 52,436,821
TRs	7.00%	8.00%	9.00%
District's proportionate share of net OPEB liability	\$ 120,592,500	\$ 137,820,000	\$ 155,047,500

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
CERS	6.25%	7.25%	8.25%
District's proportionate share of net OPEB liability	\$ 38,595,361	\$ 44,770,619	\$ 50,945,877
TRs	6.75%	7.75%	8.75%
District's proportionate share of net OPEB liability	\$ 120,036,774	\$ 137,820,000	\$ 155,603,226

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

Continued

Fayette County School District

June 30, 2018

Note V--Other Post-Employment Benefits ("OPEB")--Continued

TRS Life Insurance Plan

As provided by Kentucky Revised Statute 161.655, TRS administers the Life Insurance Plan for eligible active and retired members. The TRS Life Insurance Plan is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes to the Plan may be made by the TRS Board of Trustees and the General Assembly.

Benefit provided – The TRS Life Insurance Plan provides a life insurance benefit of \$5,000 payable for members who retire based on service or disability. Active members may receive a \$2,000 lump sum payable. The benefit is payable to the member's estate or to a party designated by the member.

Contributions – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.03%) of the gross payroll of members is contributed by the state.

At June 30, 2018, the District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

State's proportionate share of the KTRS net OPEB liability	\$ 1,507,000
District's proportionate share of the KTRS OPEB liability	<u>-</u>
	<u>\$ 1,507,000</u>

For the year ended June 30, 2018, the District recognized revenue of \$223,000 for support provided by the State. At June 30, 2018, the District did not have any deferred outflows of resources or deferred inflows of resources related to the collective net OPEB liability for life insurance benefits.

Continued

Notes to Financial Statements--Continued

Fayette County School District

June 30, 2018

Note V--Other Post-Employment Benefits ("OPEB")--Continued

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment Rate of Return	7.50%, net of OPEB Plan Investment Expense, including inflation
Projected Salary Increases	3.50 - 7.20%, including inflation
Inflation Rate	3.00%
Real wage growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.56%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB Plan Investment Expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Continued

Fayette County School District

June 30, 2018

Note V--Other Post-Employment Benefits ("OPEB")--Continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS' investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Large Cap Equity	38.40%	4.30%
U.S. Small Cap Equity	2.60%	4.80%
Developed Int'l Equity	15.80%	5.20%
Emerging Markets Equity	4.20%	5.40%
Fixed Income - Inv Grade	16.00%	1.20%
Real Estate	6.00%	4.00%
Private Equity	7.00%	6.60%
High Yield	2.00%	4.30%
Other Additional Categories**	6.00%	3.30%
Cash	2.00%	0.50%
Total	<u>100.0%</u>	

** Modeled as 50% High Yield and 50% Bank Loans.

Discount rate – The discount rate used to measure the State's total OPEB liability for life insurance was 7.5%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

Fayette County School District

June 30, 2018

Note W--Adoption of Accounting Principle and Changes to Beginning Balances

Effective July 1, 2017, the District was required to adopt Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires reporting of the District's OPEB liability on the face of the financial statements and more extensive note disclosures and required supplementary information about OPEB liabilities. Cost-sharing governmental employers, such as the District, are required to report a net OPEB liability, OPEB expense and OPEB related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 75 required retrospective application. Since the District only presents one year of financial information, the beginning net position was adjusted to reflect the retrospective application. The adjustment resulted in a \$157,769,174 reduction in the beginning net position for the governmental activities on the Statement of Activities. On the Statement of Revenue, Expenditures and Changes in Net Position – Proprietary Fund, the adjustment resulted in a reduction of \$3,944,043 to the beginning net position for the Food Service Fund and a reduction of \$386,955 for the After School Program Fund. This change reduced beginning net position by \$4,330,998 for the business-type activities on the Statement of Activities.

Note X--Subsequent Events

In preparing these financial statements, management of the District has evaluated events and transactions for potential recognition or disclosure through November 14, 2018, the date the financial statements were available to be issued.

Required Supplementary Information

Budgetary Comparison Information

Statement of Revenues and Expenditures - Budget and Actual
General Fund

Fayette County School District

June 30, 2018

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
From local sources				
Property taxes	\$ 188,617,270	\$ 184,801,550	\$ 186,821,053	\$ 2,019,503
Motor vehicle taxes	11,784,964	11,501,147	12,428,432	927,285
Utility taxes	20,694,351	22,000,000	22,331,673	331,673
Occupational license tax	37,719,614	38,000,000	37,357,889	(642,111)
Earnings on investments	139,850	350,000	834,454	484,454
Other sources	3,961,458		5,394,147	5,394,147
State sources				
SEEK	101,265,648	96,564,471	96,564,471	
Other state revenues	78,146,834	69,507,557	121,134,168	51,626,611
Total Revenues	442,329,989	422,724,725	482,866,287	60,141,562
Expenditures				
Instruction	274,819,784	272,218,418	308,360,744	(36,142,326)
Support services				
Student	23,223,485	23,562,371	23,211,326	351,045
Instruction staff	18,015,632	23,145,312	22,683,222	462,090
District administration	9,575,239	8,114,466	8,046,787	67,679
School administration	28,430,203	28,375,846	26,847,123	1,528,723
Business	28,834,497	28,314,767	24,817,652	3,497,115
Plant operation & maintenance	48,925,331	43,623,932	41,384,733	2,239,199
Student transportation	21,561,778	24,394,290	23,190,809	1,203,481
Community service	267,651	268,248	241,788	26,460
Debt service	1,273,848	1,404,117	1,404,116	1
Total Expenditures	454,927,448	453,421,767	480,188,300	(26,766,533)
Revenues in Excess of (Less Than) Expenditures	(12,597,459)	(30,697,042)	2,677,987	33,375,029
Other Financing Sources (Uses)				
Proceeds from sale of fixed assets	45,000	45,000		(45,000)
Loss from Investment of bonds			(7,969)	(7,969)
Operating transfer in	1,117,912	1,117,912	1,212,835	94,923
Operating transfers out	(6,016,439)	(2,950,980)	(2,840,447)	110,533
Capital Lease Proceeds		1,964,029	2,193,472	229,443
Contingency	(32,000,000)	(31,500,000)		31,500,000
Total Other Financing Sources (Uses)	(36,853,527)	(31,324,039)	557,891	31,881,930
Revenues in Excess of (Less Than) Expenditures	\$ (49,450,986)	\$ (62,021,081)	\$ 3,235,878	\$ 65,256,959

See Accompanying Independent Auditors' Report

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

Fayette County School District

June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
State sources-Other state revenue	\$ 15,158,286	\$ 13,464,216	\$ 15,235,180	\$ 1,770,964
Governmental grants	21,446,845	25,643,784	25,830,438	186,654
Other sources	496,402	483,663	1,851,130	1,367,467
Total Revenue	37,101,533	39,591,663	42,916,748	3,325,085
Expenditures				
Instruction	26,171,298	29,803,628	30,218,505	(414,877)
Support services				
Student	2,865,960	2,921,955	3,114,621	(192,666)
Instruction staff	2,553,451	2,943,115	3,211,998	(268,883)
District administration			(165)	165
School administration	381,969	366,889	367,043	(154)
Business	427,549	900,411	1,772,998	(872,587)
Plant operation & maintenance	102,567	126,417	265,223	(138,806)
Community service activities	2,703,268	2,706,621	2,724,222	(17,601)
Total Expenditures	35,206,062	39,769,036	41,674,445	(1,905,409)
Revenues in Excess of (Less Than) Expenditures	1,895,471	(177,373)	1,242,303	1,419,676
Other Financing Sources (Uses)				
Operating transfers in		1,298,730	1,861,639	562,909
Operating transfer out	(1,895,471)	(2,309,311)	(2,300,766)	8,545
Total Other Financing Sources (Uses)	(1,895,471)	(1,010,581)	(439,127)	571,454
Revenues in Excess of (Less Than) Expenditures	\$ -	\$ (1,187,954)	\$ 803,176	\$ 1,991,130

See Accompanying Independent Auditors' Report

Schedule of Revenues and Expenditures – Budget and Actual

Fayette County School District

Year Ended June 30, 2018

Explanation of Significant Budget Variances

General Fund

The Commonwealth of Kentucky pays certain employee benefit expenses, including health insurance and the employer match for the Kentucky Teachers Retirement Systems, on-behalf of its districts. Districts have the option to budget these expenses for financial statement presentation. For the 2017-2018 fiscal years, these expenses were budgeted and totaled \$81.2 million. On the expenditure side, beyond the effects of on-behalf payments, expenditures that increased include Instruction, Student Support Services, Instructional Staff Support Services, District Administration Support, School Administration Support, Business Support Services, Plant Operations, Student Transportation, Community Services 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

Schedule of the District's Proportionate Share of the Net Pension Liability
 - County Employees Retirement System Non-Hazardous

Fayette County School District

Years Ended June 30

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Net Pension Liability for County Employees Retirement Systems	\$ 5,853,307,463	\$ 4,923,618,237	\$ 4,299,525,565	\$ 3,244,377,000
District's Proportion (Percentage) of Net Pension Liability	2.23%	2.33%	2.39%	2.52%
District's Proportion (Amount) of Net Pension Liability	\$ 130,354,035	\$ 115,180,974	\$ 102,690,080	\$ 81,724,304
District's Covered-Employer payroll	\$ 57,370,409	\$ 54,180,981	\$ 56,036,975	\$ 79,796,735
District's Proportionate Share (Amount) of the Net Pension Liability As a Percentage of District's Covered-Employer Payroll	227.21%	212.59%	183.25%	102.42%

**Schedule is intended to show information for ten years. Additional years
 will be displayed as they become available.

See Accompanying Independent Auditors' Report

Schedule of the Contributions
 - County Employees Retirement System Non-Hazardous

Fayette County School District

Years Ended June 30

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 7,564,024	\$ 6,646,241	\$ 6,802,888	\$ 6,671,804
Contributions in relation to the actuarially determined contribution	<u>7,564,024</u>	<u>6,646,241</u>	<u>6,802,888</u>	<u>6,671,804</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Covered-employee payroll	\$ 57,370,409	\$ 54,180,981	\$ 56,036,975	\$ 79,796,735
Contributions as a percentage covered- employee payroll	13.1845%	12.2667%	12.1400%	8.3610%

** Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Accompanying Independent Auditors' Report

Schedule of the District's Proportionate Share of the Net Pension Liability
 - Kentucky Teachers Retirement System

Fayette County School District

Years Ended June 30

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.000000%	0.000000%	0.000000%	0.000000%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -
Commonwealth's proportion of the net pension liability associated with the District	7.3505%	7.1970%	7.0862%	7.0004%
Commonwealth's proportionate share of the net pension liability associated with the District	<u>1,983,376,595</u>	<u>2,123,121,587</u>	<u>1,648,984,314</u>	<u>1,438,529,901</u>
Total	<u>\$ 1,983,376,595</u>	<u>\$ 2,123,121,587</u>	<u>\$ 1,648,984,314</u>	<u>\$ 1,438,529,901</u>
 District's covered-employee payroll	 \$ 243,479,128	 \$ 233,911,879	 \$ 225,602,190	 \$ 217,587,702

**Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Accompanying Independent Auditors' Report

Schedule of District Contributions
 - Kentucky Teachers Retirement System

Fayette County School District

Years Ended June 30

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 70,468,176	\$ 34,934,106	\$ 34,103,241	\$ 6,305,145
Contributions in relation to the contractually required contribution	<u>70,468,176</u>	<u>34,934,106</u>	<u>34,103,241</u>	<u>6,305,145</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Districts' covered payroll	\$ 243,479,128	\$ 233,638,752	\$ 225,602,190	\$ 217,587,702
Contributions as a percentage of covered-employee payroll	28.9422%	14.9522%	15.1165%	2.8977%

**Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Accompanying Independent Auditors' Report

Schedule of the District's Proportionate Share of the Net OPEB Liability
 - County Employees Retirement System Non-Hazardous

Fayette County School District

Years Ended June 30

	<u>2018</u>	<u>2017</u>
District's Proportion (Percentage) of Net OPEB Liability	2.227%	N/A
District's Proportion (Amount) of Net OPEB Liability	\$ 44,770,619	\$ 32,271,102
District's Covered-Employer payroll	\$ 57,370,409	\$ 54,180,981
District's Proportionate Share (Amount) of the Net Pension Liability As a Percentage of District's Covered-Employer Payroll	78.04%	59.56%

**Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Accompanying Independent Auditors' Report

Schedule of the Contributions - OPEB
 - County Employees Retirement System Non-Hazardous

Fayette County School District

Years Ended June 30

	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 7,564,024	\$ 6,646,241
Contributions in relation to the actuarially determined contribution	<u>7,564,024</u>	<u>6,646,241</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
Covered-employee payroll	\$ 57,370,409	\$ 54,180,981
Contributions as a percentage covered- employee payroll	13.1845%	12.2667%

** Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Accompanying Independent Auditors' Report

Schedule of the District's Proportionate Share of the Collective Net OPEB Liability
 - Kentucky Teachers Retirement System - Medical Insurance

Fayette County School District

Years Ended June 30

	<u>2018</u>
District's proportion of the net OPEB liability	3.865%
District's proportionate share of the net OPEB liability	\$ 137,820,000
Commonwealth's proportion of the net OPEB liability associated with the District	3.157%
Commonwealth's proportionate share of the net OPEB liability associated with the District	<u>112,579,000</u>
Total	<u><u>\$ 250,399,000</u></u>
District's covered-employee payroll	\$ 243,479,128
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	56.6044%

**Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Accompanying Independent Auditors' Report

Schedule of the Contributions - OPEB
- Kentucky Teachers Retirement System

Fayette County School District

Years Ended June 30

	<u>2018</u>
Actuarially determined contribution	\$ 6,621,930
Contributions in relation to the actuarially determined contribution	<u>6,621,930</u>
Contribution deficiency (excess)	<u><u>\$</u></u>
Covered-employee payroll	\$ 243,479,128
Contributions as a percentage covered- employee payroll	2.7197%

** Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Accompanying Independent Auditors' Report

Combining Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

Fayette County School District

June 30, 2018

	<u>Permanent Funds</u>				
	<u>Building Fund</u>	<u>SEEK Capital Outlay Fund</u>	<u>District Activity Fund</u>	<u>Lexington Industrial School Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 389,952	\$ 835,582	\$ 397,440	\$ 771	\$ 1,623,745
Accounts receivable-taxes			24,673		24,673
Total Assets	<u>\$ 389,952</u>	<u>\$ 835,582</u>	<u>\$ 422,113</u>	<u>\$ 771</u>	<u>\$ 1,648,418</u>
Liabilities					
Accounts Payable			\$ 27,351	\$ 771	\$ 28,122
Deferred Revenue			394,762		394,762
Total Liabilities			422,113	771	422,884
Fund Balances					
Restricted	\$ 389,952	\$ 835,582			1,225,534
Total Liabilities and Fund Balances	<u>\$ 389,952</u>	<u>\$ 835,582</u>	<u>\$ 422,113</u>	<u>\$ 771</u>	<u>\$ 1,648,418</u>

See Accompanying Independent Auditors' Report

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

Fayette County School District

June 30, 2018

	Permanent Funds						Total Nonmajor Governmental Funds
	Building Fund	SEEK Capital Outlay Fund	District Activity Fund	Anthony Dey Fund	Lexington Industrial School Fund	N.Isabel Schmidt Fund	
Revenues							
Local sources							
Property taxes	\$ 31,207,895						\$ 31,207,895
Motor vehicle taxes	1,117,571						1,117,571
State Sources		\$ 3,692,276					3,692,276
SEEK program							
Earnings on investments			\$ 1,338,985		\$ 5,470		1,344,455
Other sources							
Total Revenues	<u>32,325,466</u>	<u>3,692,276</u>	<u>1,338,985</u>		<u>5,470</u>		<u>37,362,197</u>
Expenditures							
Instruction			1,280,552				1,280,552
Support services							
Instruction staff			58,433		7,856		58,433
Community service activities							7,856
Total Expenditures			<u>1,338,985</u>		<u>7,856</u>		<u>1,346,841</u>
Revenue in Excess of (Less Than) Expenditures	32,325,466	3,692,276			(2,386)		36,015,356
Other Financing Sources (Uses)							
Operating transfers out	(31,966,283)	(2,856,694)					(34,822,977)
Net Change in Fund Balances	359,183	835,582			(2,386)		1,192,379
Fund Balances							
Beginning of Year	30,769				2,386		33,155
Fund Balance End of Year	<u>\$ 389,952</u>	<u>\$ 835,582</u>	<u>\$ -</u>		<u>\$ -</u>		<u>\$ 1,225,534</u>

See Accompanying Independent Auditors' Report.