

**Strothman & Company P S C**

Certified Public Accountants & Advisors



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District-wide and Fund Financial Statements  
and Required Supplementary Information

**Fayette County School District**

June 30, 2009

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and Required Supplementary Information

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## Independent Auditors' Report



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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fayette County School District (the "District") as of June 30, 2009 and for the year then ended, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2009 and the respective changes in financial position and cash flows for its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (Unaudited) on pages 3 through 10, and the Budgetary Comparison Information on pages 42 and 43 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. This combining supplementary information listed on pages 44 and 45 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the District's basic financial statements taken as a whole.

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In accordance with *Government Auditing Standards*, we have also issued a report dated November 13, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Stallman & Company PSC*

Louisville, Kentucky  
November 13, 2009

Management's Discussion and Analysis (MD&A)

**Fayette County School District**

Year Ended June 30, 2009

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, 2009. 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 third 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.

**FINANCIAL HIGHLIGHTS**

- The ending cash balance for the District was \$164.2 million in 2009 and \$111.7 million in 2008. This change was the result of the issuance of bonds in 2009 to build and renovate schools.
- From 2008 to 2009, total revenue increased by 1.1%. Revenue from local sources increased 3.7% while revenue from the state increased by 3.6 %. Our total net assets increased by 15%.

**Table One:**  
**Total Revenue Comparison Analysis (Governmental Activities)**

<b>Revenues</b>	<b>2009</b>	<b>2008</b>	<b>Change</b>
Local Sources:			
Property Taxes	\$ 144,313,786	\$136,723,757	\$7,590,029
Motor Vehicle Taxes	9,832,781	10,553,959	(721,178)
Utility Taxes	21,806,906	20,499,300	1,307,606
Occupational Taxes	27,794,302	28,702,463	(908,161)
State Sources:			
SEEK Program	77,012,642	74,124,130	2,888,512
Other State Revenues	66,483,244	63,389,775	3,093,469
KSFCC Allocation	2,845,511	3,794,194	(948,683)
Grants	22,132,894	23,472,806	(1,339,912)
Earnings on Investments	1,014,713	4,932,975	(3,918,262)
Other Sources	4,015,435	6,976,500	(2,961,065)
<b>Total Revenues</b>	<b>\$ 377,252,214</b>	<b>\$373,169,859</b>	<b>\$4,082,355</b>

Continued

Management's Discussion and Analysis (MD&A)--Continued

**Fayette County School District**

Year Ended June 30, 2009

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

<b>Expenditures</b>	<b>2009</b>	<b>2008</b>	<b>Change</b>
Instruction	\$223,942,708	\$210,100,543	\$13,842,165
Student support services	17,836,080	17,844,738	(8,658)
Instructional staff support services	17,960,358	18,496,520	(536,162)
District administrative support services	4,377,904	4,186,985	190,919
School administrative support services	16,606,666	16,694,329	(87,663)
Business support services	16,392,695	18,415,028	(2,022,333)
Plant operations and maintenance	33,140,490	35,093,960	(1,953,470)
Transportation	9,975,702	11,824,935	(1,849,233)
Facilities acquisition/construction	251,015		251,015
Community services	2,467,450	2,469,739	(2,289)
Interest	9,690,155	10,215,181	(525,026)
Other expenditures	206,785	205,027	1,758
Loss on sale of fixed assets		1,081,902	(1,081,902)
	<u>\$352,848,008</u>	<u>\$346,628,887</u>	<u>\$6,219,121</u>

Among major funds, the General Fund had approximately \$309 million in revenue, which primarily consisted of local property taxes, local occupational license taxes, utilities and motor vehicle taxes, federal programs and state funding (the SEEK program). There were approximately \$295 million in expenditures.

- Our major focus continues to be on student achievement and customer service through the leadership of Superintendent Stuart Silberman. All staff is encouraged to become involved and contribute toward student achievement. Academic staff is focused on student achievement and leadership development. Support staff also participated in the leadership training and development. Superintendent Silberman has also challenged everyone to provide great customer service support services in all areas.
- Fayette County Public Schools has gone from three schools scoring above 100 on CATS to 19 schools during 2009. This translates into more than a third of schools in Fayette County surpassing state proficiency before the 2014 deadline.
- Fayette County Public Schools received the state's best ever scholastic audit from the Kentucky Department of Education, earning 54 exemplary ratings of "4" (61 percent). Previously, the most "4"s ever given to a school district was eight.

Continued

Management's Discussion and Analysis (MD&A)--Continued

**Fayette County School District**

Year Ended June 30, 2009

- Fayette County Public Schools has five schools currently under renovation: Arlington, Cassidy, and Russell Elementary Schools and Bryan Station and Leestown Middle Schools. Three additional renovations are in the planning and design phase: Clays Mill and Yates Elementary Schools and Tates Creek Middle School. Additionally, two new facilities are in design: a 650 student elementary in southeast Lexington and an AgriScience facility off Leestown Rd.
- Our enrollment is increasing an average of 600 students per year for the last three years.
- As school district, Fayette County earned top 10 status in 2009 with an overall score of 92 among Kentucky school districts that serve students in kindergarten through high school, Fayette's score of 92 was the 9th highest index earned.
- The state continued to mandate salary increases for teachers and classified staff that were not fully funded.
- The Board and Superintendent Silberman continued with implementation of the "2020 Vision" initiative which derived from meetings with our community to envision what our school system should look like in the year 2020. This model has broad-based support from the community as interested citizens assisted in the development of the plan.
- In 2009, Superintendent Silberman was named the Superintendent of the Year for Kentucky. Additionally, Superintendent Silberman had the distinguished honor of being named to the Final Four for National Superintendent of the Year.
- The District is in its third year of a Student Continuation Plan that enables elementary students to stay and finish at the school where they first enroll. The plan also addresses the future crowding in a way that eliminates the need for redistricting or requiring entire neighborhoods of students to change schools as has been done in the past.
- Standard & Poor's has upgraded Fayette County Public Schools rating to AA from AA- and Moody's has assigned our district a rating of Aa3.
- The Chief Operating Officer and District leadership continues to utilize zero based budgeting in preparation for the 2009 fiscal year.
- Another budgeting technique the Chief Operating Officer and District leadership have employed is the development of a "biennial budget" plan which takes into account legislated mandates and approved state resources. This requires a projection of recurring revenues over a two year period and anticipated expenses over that same timeframe. This has allowed the Board to utilize the recurring dollars to fund initiatives for one year while reserving these funds for recurring expenses in the second year of the biennium. This strategy has helped to solidify a strong financial position.

Continued

Management's Discussion and Analysis (MD&A)--Continued

**Fayette County School District**

Year Ended June 30, 2009

- The Chief Operating Officer working in conjunction with other District leadership continues the refinement of the structure of the business and operations areas, while evaluating processes and allocation of resources.
- The Budget and Finance Committee worked with staff to review and implement sound fiscal practices in utilizing school funding. A subcommittee of the Budget and Finance Committee spearheaded the revisions to the staffing policy that was approved by the Board.
- The Financial Services administrative team continues to focus on improving efficiencies in managing the expenses and revenues of the district to ensure the resources are available for all students to learn at the highest levels through sound financial management.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

**District-wide financial statements.**

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

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

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

Continued

Management's Discussion and Analysis (MD&A)--Continued

**Fayette County School District**

Year Ended June 30, 2009

**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. All other activities of the District are included in the governmental funds.

The governmental fund financial statements can be found on pages 13 through 16 of this report.

**Notes to the financial statements.**

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

The notes to the financial statements can be found on pages 22 through 41 of this report.

**DISTRICT-WIDE FINANCIAL ANALYSIS**

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment, and construction in progress) less any related debt used to acquire those assets that is 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 seventh year that the District is following GASB 34 and comparing assets, liabilities and net assets.

Continued

Management's Discussion and Analysis (MD&A)--Continued

**Fayette County School District**

Year Ended June 30, 2009

**2009 District-Wide Net Asset compared to 2008 follows:**

**Table Three:  
2009 District-Wide Net Assets Compared to 2008**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 193,227,011	\$ 139,563,561	\$ 4,330,074	\$ 3,763,901	\$ 197,557,085	\$ 143,327,462
Capital assets, net of depreciation	289,303,322	285,046,124	3,492,480	1,580,702	292,795,802	286,626,826
<b>Total Assets</b>	<b>482,530,333</b>	<b>424,609,685</b>	<b>7,822,554</b>	<b>5,344,603</b>	<b>490,352,887</b>	<b>429,954,288</b>
Short-term liabilities	34,954,295	47,770,075	563,386	74,055	35,517,681	47,844,130
Other liabilities	239,762,104	195,495,590			239,762,104	195,495,590
<b>Total Liabilities</b>	<b>274,716,399</b>	<b>243,265,665</b>	<b>563,386</b>	<b>74,055</b>	<b>275,279,785</b>	<b>243,339,720</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	52,942,096	81,679,191	3,492,480	1,580,702	56,434,576	83,259,893
Restricted	87,440,257	31,434,401			87,440,257	31,434,401
Unrestricted	67,431,576	68,230,428	3,766,686	3,689,846	71,198,262	71,920,274
<b>Total Net Assets</b>	<b>\$ 207,813,929</b>	<b>\$ 181,344,020</b>	<b>\$ 7,259,166</b>	<b>\$ 5,270,548</b>	<b>\$ 215,073,095</b>	<b>\$ 186,614,568</b>

Continued

Management's Discussion and Analysis (MD&A)--Continued

**Fayette County School District**

Year Ended June 30, 2009

The following table presents a comparison and summary of revenue and expenditures for the fiscal years 2009 and 2008.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues						
Program revenues						
Charges for service	\$ 215,049	\$ 462,212	\$ 7,533,177	\$ 6,111,060	\$ 7,748,226	\$ 6,573,272
Operating grants and contributions	24,984,181	27,267,000	9,279,097	8,199,482	34,263,278	35,466,482
Capital grants and contributions	755,254	2,189,060	758,101	986,266	1,513,355	3,175,326
General revenues						
Local taxes	203,747,775	196,479,479			203,747,775	196,479,479
State sources	143,495,886	137,513,905			143,495,886	137,513,905
Earnings on investments	1,014,713					
Gain (loss) on sale of fixed assets	1,310,454	(1,081,902)	(21,930)	(92,608)	1,288,524	(1,174,510)
Other	3,794,610	9,258,203	30,257	143,535	3,824,867	9,401,738
<b>Total Revenues</b>	<u>379,317,922</u>	<u>372,087,957</u>	<u>17,578,702</u>	<u>15,347,735</u>	<u>395,881,911</u>	<u>387,435,692</u>
Expenses						
School operating and administration						
	343,157,853	335,331,804			343,157,853	335,331,804
School food services			14,651,024	15,798,850	14,651,024	15,798,850
After school program			939,058		939,058	
Interest on debt service	9,690,155	10,215,181			9,690,155	10,215,181
<b>Total Expenses</b>	<u>352,848,008</u>	<u>345,546,985</u>	<u>15,590,082</u>	<u>15,798,850</u>	<u>368,438,090</u>	<u>361,345,835</u>
<b>Change in Net Assets</b>	<u>\$ 26,469,914</u>	<u>\$ 26,540,972</u>	<u>\$ 1,988,620</u>	<u>\$ (451,115)</u>	<u>\$ 27,443,821</u>	<u>\$ 26,089,857</u>

Continued

Management's Discussion and Analysis (MD&A)--Continued

**Fayette County School District**

Year Ended June 30, 2009

Expenses that declined from 2008 to 2009 include student support services, instructional staff support services, school administration support services, and central office support services. The changes in the balances and transactions of individual funds have all been examined and explained. Changes in the final budget when compared to the original were not material.

Analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund indicate that there were no variations which would have a significant effect on future services or liquidity. We budgeted approximately \$256 million dollars in revenue and received approximately \$259 million in general fund excluding on behalf revenue. Our financial position remains very strong and we will continue to utilize trend analysis to help predict such variances in the future.

**BUDGETARY IMPLICATIONS**

In Kentucky, the public school fiscal year is July 1 - June 30; other programs, i.e. some federal programs, operate on a different program calendar, but are reflected in the District overall budget. By Kentucky statute the budget must have a minimum 2% contingency. The District adopted a budget for 2009 with \$17.5 million in contingency that is approximately 5%. The District is the second largest in the state with 36,939 students and is the second largest employer in Fayette County.

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

Statement of Net Assets

**Fayette County School District**

June 30, 2009

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 161,384,202	\$ 2,816,120	\$ 164,200,322
Investments	371,461		371,461
Accounts and grants receivable outside sources	27,206,294	1,142,338	28,348,632
Inventory	1,125,905	370,911	1,496,816
Internal balances	(705)	705	
Capital assets, net of accumulated depreciation	289,303,322	3,492,480	292,795,802
Bond issuance costs	3,139,853		3,139,853
	<u>482,530,332</u>	<u>7,822,554</u>	<u>490,352,886</u>
<b>Total Assets</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities due to outside sources	27,289,028	563,386	27,852,414
Interest payable	1,950,213		1,950,213
Deferred revenue	5,256,809		5,256,809
Estimated liability for workers' compensation benefits	458,244		458,244
Accrued sick leave	3,400,878		3,400,878
School building revenue bonds			
Due within one year	8,813,778		8,813,778
Due in more than one year	220,124,412		220,124,412
Capital lease			
Due within one year	1,120,649		1,120,649
Due in more than one year	6,302,387		6,302,387
	<u>274,716,398</u>	<u>563,386</u>	<u>275,279,784</u>
<b>Total Liabilities</b>			
<b>Net Assets</b>			
Invested in capital assets, net of related debt	52,942,096	3,492,480	56,434,576
Restricted for:			
Capital projects	86,827,336		86,827,336
Other purposes	612,926		612,926
Unrestricted	67,431,576	3,766,688	71,198,264
	<u>\$ 207,813,934</u>	<u>\$ 7,259,168</u>	<u>\$ 215,073,102</u>
<b>Total Net Assets</b>			

See Accompanying Notes to Financial Statements

Statement of Activities

Fayette County School District

Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<b>Governmental Activities</b>					
Instruction	\$ 223,942,708	\$ 215,049	\$ 22,138,670	\$ (201,588,989)	
Support services					
Student	17,836,080			(17,836,080)	
Instruction staff	17,960,358			(17,960,358)	
District administration	4,377,904			(4,377,904)	
School administration	16,606,666			(16,606,666)	
Business	16,392,695			(16,392,695)	
Plant operation and maintenance	33,140,490		2,845,511	(30,294,979)	
Student transportation	9,975,702			(9,975,702)	
Facilities acquisition/construction	251,015			504,239	
Community service activities	2,467,450			(2,467,450)	
Interest on long-term debt	9,690,155			(9,690,155)	
Other expenditures	206,785			(206,785)	
<b>Total Governmental Activities</b>	<b>352,848,008</b>	<b>215,049</b>	<b>24,984,181</b>	<b>(326,893,524)</b>	
<b>Business-Type Activities</b>					
Food service	14,651,023	6,523,579	9,177,899	1,808,556	
Other Enterprise Fund	939,058	1,009,597	101,198	171,737	
<b>Total Business-Type Activities</b>	<b>15,590,081</b>	<b>7,533,176</b>	<b>9,279,097</b>	<b>1,980,293</b>	
<b>Total Activities</b>	<b>\$ 368,438,089</b>	<b>\$ 7,748,225</b>	<b>\$ 34,263,278</b>	<b>\$ (324,913,231)</b>	
			<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Changes in Net Assets</b>					
Net (Expenses) Revenues			\$ (326,893,524)	\$ 1,980,293	\$ (324,913,233)
<b>General Revenues</b>					
Taxes					
Property taxes			144,313,786		144,313,786
Occupational license tax			27,794,302		27,794,302
Motor vehicle taxes			9,832,781		9,832,781
Utility taxes			21,806,906		21,806,906
Earnings on investments			1,014,713	30,257	1,044,970
State sources					
SEEK program			77,012,642		77,012,642
Other state revenues/grants			66,483,244		66,483,244
Gain/Loss on sale of capital assets			1,310,449	(21,930)	1,288,519
Local revenues			3,794,615		3,794,615
<b>Total General Revenues</b>			<b>353,363,438</b>	<b>8,327</b>	<b>353,371,765</b>
<b>Change in Net Assets</b>			<b>26,469,914</b>	<b>1,988,620</b>	<b>28,458,534</b>
<b>Net Assets Beginning of the Year</b>			<b>181,344,020</b>	<b>5,270,548</b>	<b>186,614,568</b>
<b>Net Assets End of Year</b>			<b>\$ 207,813,934</b>	<b>\$ 7,259,168</b>	<b>\$ 215,073,102</b>

See Accompanying Notes to Financial Statements

Balance Sheet - Governmental Funds

Fayette County School District

June 30, 2009

	General Funds	Special Revenue	Debt Service	Construction Funds	Total Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets and Resources</b>						
Cash and cash equivalents	\$ 84,216,878			\$ 76,925,038	\$ 242,286	\$ 161,384,202
Investments					371,461	371,461
Accounts and grants receivable from outside sources	14,155,682	\$ 12,295,358		755,254		27,206,294
Inventories	1,125,905					1,125,905
Prepaid expenses						
Internal balances	6,221,422					6,221,422
Due from other funds	(704)					(704)
	<u>\$ 105,719,183</u>	<u>\$ 12,295,358</u>	<u>\$</u>	<u>\$ 77,680,292</u>	<u>\$ 613,747</u>	<u>\$ 196,308,580</u>
<b>Total Assets and Resources</b>						
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable and accrued liabilities due to outside sources	\$ 22,602,581	\$ 817,127		\$ 3,869,322		\$ 27,289,030
Accrued sick leave	1,361,087					1,361,087
Deferred revenue		5,256,809				5,256,809
Internal balances		6,221,422				6,221,422
Estimated liability for workers' compensation benefits	458,244					458,244
	<u>24,421,912</u>	<u>12,295,358</u>	<u>\$</u>	<u>3,869,322</u>	<u>\$</u>	<u>40,586,592</u>
<b>Total Liabilities</b>						
<b>Fund Balances Reserved</b>						
Encumbrances	6,476,024			48,705,209		55,181,233
State-mandated reserve	17,585,426					17,585,426
Inventories	1,125,905					1,125,905
Permanent funds					\$ 612,926	612,926
	<u>32,065,312</u>	<u>\$</u>	<u>\$</u>	<u>25,105,761</u>	<u>821</u>	<u>32,065,312</u>
<b>Unreserved</b>						
Undesignated	24,044,604					49,151,186
Designated						
	<u>81,297,271</u>	<u>\$</u>	<u>\$</u>	<u>73,810,970</u>	<u>613,747</u>	<u>155,721,988</u>
<b>Total Fund Balances</b>						
<b>Total Liabilities and Fund Balances</b>	<u>\$ 105,719,183</u>	<u>\$ 12,295,358</u>	<u>\$</u>	<u>\$ 77,680,292</u>	<u>\$ 613,747</u>	<u>\$ 196,308,580</u>

See Accompanying Notes to Financial Statements

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

**Fayette County School District**

June 30, 2009

<b>Total Fund Balance per Funds Financial Statement</b>	<b>\$ 155,721,988</b>
Amounts reported for governmental activities in the statement of net assets 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 assets.	289,303,322
Certain assets are not reported in the fund financial statements because they are not available to pay current period expenditures but they are reported in the statement of net assets.	3,139,853
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest, and accrued contingency) are not reported in the fund financial statement because they are not due and payable but they are presented in the statement of net assets.	<u>(240,351,229)</u>
<b>Net Assets of Governmental Activities for District-Wide Statement of Net Assets</b>	<b><u>\$ 207,813,934</u></b>

See Accompanying Notes to Financial Statements

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

Fayette County School District

Year Ended June 30, 2009

	General Fund	Special Revenue Fund	Debt Service	Construction Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
From local sources						
Property taxes	\$ 121,281,518				\$ 23,032,270	\$ 144,313,788
Motor vehicle taxes	9,047,744				785,037	9,832,781
Utility taxes	21,806,906					21,806,906
Occupational license tax	27,794,302					27,794,302
Earning on investments	895,294	\$ 17,439	\$ 2,714	\$ 2,780	96,486	1,014,713
Other sources	3,673,793	335,867		755,254	5,776	4,770,690
State sources						
SEEK	73,828,610				3,184,032	77,012,642
Other state revenues	50,992,888	15,238,773				66,231,661
KSFOC allocation			2,845,511			2,845,511
Governmental grants		22,132,894				22,132,894
<b>Total Revenues</b>	<b>309,321,055</b>	<b>37,724,973</b>	<b>2,848,225</b>	<b>758,034</b>	<b>27,103,601</b>	<b>377,755,888</b>
<b>Expenditures</b>						
Instruction	185,035,959	26,125,126				211,161,085
Support services						
Student	15,959,502	1,873,813				17,833,315
Instruction staff	14,009,143	3,951,214				17,960,357
District administration	4,363,300	6,462				4,369,762
School administration	14,487,231	2,119,434				16,606,665
Business	15,275,676	573,366			543,653	16,392,695
Plant operation and maintenance	33,038,367	99,146				33,137,513
Student transportation	11,134,103					11,403,478
Facilities acquisition/construction				14,541,682	61,220	14,541,682
Community service activities		2,406,231	17,442,760	154,012		2,467,451
Debt service	1,258,059					1,258,059
<b>Total Expenditures</b>	<b>294,561,340</b>	<b>37,424,167</b>	<b>17,442,760</b>	<b>14,695,694</b>	<b>604,873</b>	<b>364,728,834</b>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<b>14,759,715</b>	<b>300,806</b>	<b>(14,594,535)</b>	<b>(13,937,660)</b>	<b>26,498,728</b>	<b>13,027,054</b>
<b>Other Financing Sources (Uses):</b>						
Proceeds from sale of fixed assets	1,318,172					1,318,172
Operating transfers in	971,812	671,006	14,247,581	22,456,716	(32,007,514)	38,347,115
Operating transfers out	(5,367,789)	(971,812)				(38,347,115)
Proceeds from sale of bonds, net of discount				40,327,000		40,327,000
<b>Total Other Financing Sources (Uses)</b>	<b>(3,077,805)</b>	<b>(300,806)</b>	<b>14,247,581</b>	<b>62,783,716</b>	<b>(32,007,514)</b>	<b>41,645,172</b>
<b>Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>11,681,910</b>		<b>(346,954)</b>	<b>48,846,056</b>	<b>(5,508,786)</b>	<b>54,672,226</b>
<b>Fund Balance Beginning of Year</b>	<b>59,615,361</b>		<b>346,954</b>	<b>24,984,914</b>	<b>6,122,533</b>	<b>101,049,762</b>
<b>Fund Balance End of Year</b>	<b>\$ 81,297,271</b>	<b>\$</b>	<b>\$</b>	<b>\$ 73,810,970</b>	<b>\$ 613,747</b>	<b>\$ 155,721,988</b>

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, 2009

**Net Change in Total Fund Balances per Fund Financial Statement** \$ 54,672,226

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

Capital outlays are reported as expenditures in the fund financial statement  
because they use current financial resources but they are capitalized and  
depreciated over their estimated economic lives in the District-wide  
financial statements. The difference is the amount by which capital  
outlays exceed depreciation for the year. 3,318,723

Bond issuance costs are recognized as expenditures of current financial  
resources in the fund financial statement but are capitalized and amortized  
in the District-wide financial statements. 775,061

Gains 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  
statement of activities. (7,723)

Bond and capital lease payments are recognized as expenditures of current  
financial resources in the fund financial statement but are reductions of  
liabilities in the statement of net assets. (32,288,373)

**Change in Governmental Net Assets per  
the District-Wide Statement of Activities** \$ 26,469,914

See Accompanying Notes to Financial Statements

Statement of Net Assets - Proprietary Funds

Fayette County School District

June 30, 2009

	<b>Enterprise Funds</b>		
	<b>Food Service Fund</b>	<b>After School Fund</b>	<b>Total</b>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 2,648,581	\$ 167,539	\$ 2,816,120
Accounts receivable	1,134,577	7,761	1,142,338
Inventory	370,911		370,911
Due from other funds	705		705
<b>Total Current Assets</b>	<b>4,154,774</b>	<b>175,300</b>	<b>4,330,074</b>
Capital assets, net of accumulated depreciation	3,492,480		3,492,480
<b>Total Assets</b>	<b>7,647,254</b>	<b>175,300</b>	<b>7,822,554</b>
<b>Liabilities</b>			
Current liabilities, accounts payable	560,556	2,830	563,386
<b>Net Assets</b>			
Invested in capital assets	3,492,480		3,492,480
Unrestricted	3,594,218	172,470	3,766,688
<b>Total Net Assets</b>	<b>\$ 7,086,698</b>	<b>\$ 172,470</b>	<b>\$ 7,259,168</b>

See Accompanying Notes to Financial Statements

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

**Fayette County School District**

Year Ended June 30, 2009

	<b>Enterprise Funds</b>		
	<b>Food Service</b>	<b>After School Fund</b>	<b>Total</b>
<b>Operating Revenues</b>			
Lunchroom sale	\$ 6,181,682		\$ 6,181,682
Other operating revenues	341,897	\$ 1,009,597	1,351,494
<b>Total Operating Revenues</b>	<b>6,523,579</b>	<b>1,009,597</b>	<b>7,533,176</b>
<b>Operating Expenses</b>			
Salaries and wages	8,078,382	868,990	8,947,372
Material and supplies	5,767,882	70,068	5,837,950
Depreciation	804,759		804,759
<b>Total Operating Expenses</b>	<b>14,651,023</b>	<b>939,058</b>	<b>15,590,081</b>
<b>Operating Income (Loss)</b>	<b>(8,127,444)</b>	<b>70,539</b>	<b>(8,056,905)</b>
<b>Non-operating Revenues</b>			
Federal grants	8,144,271		8,144,271
Donated commodities	758,101		758,101
State grants	155,521		155,521
Interest income	29,524	733	30,257
On behalf revenues	878,107	101,198	979,305
Loss on sale of capital assets	(21,930)		(21,930)
<b>Total Non-operating Revenues</b>	<b>9,943,594</b>	<b>101,931</b>	<b>10,045,525</b>
<b>Change in Net Assets</b>	<b>1,816,150</b>	<b>172,470</b>	<b>1,988,620</b>
<b>Net Assets Beginning of Year</b>	<b>5,270,548</b>		<b>5,270,548</b>
<b>Net Assets End of Year</b>	<b>\$ 7,086,698</b>	<b>\$ 172,470</b>	<b>\$ 7,259,168</b>

See Accompanying Notes to Financial Statements

Statement of Cash Flows - Proprietary Funds

Fayette County School District

Year Ended June 30, 2009

	<b>Enterprise Funds</b>		
	<b>Food Service Funds</b>	<b>After School Fund</b>	<b>Total</b>
<b>Cash Flows From Operating Activities</b>			
Cash received from:			
Lunchroom sales	\$ 5,883,719		\$ 5,883,719
Other activities	341,897	\$ 1,001,836	1,343,733
Cash paid for:			
Employees	(7,636,985)	(764,962)	(8,401,947)
Supplies	(4,501,107)	(70,068)	(4,571,175)
<b>Net Cash Provided By (Used In) Operating Activities</b>	(5,912,476)	166,806	(5,745,670)
<b>Cash Flows From Capital and Related Financing Activities</b>			
Purchases of capital assets	(2,738,466)		(2,738,466)
<b>Cash Flows From Noncapital Financing Activities</b>			
Cash received for operating grants	8,299,792		8,299,792
<b>Cash Flows from Investing Activities</b>			
Receipt of interest income	29,524	733	30,257
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(321,626)	167,539	(154,087)
<b>Balance, Beginning of Year</b>	2,970,207		2,970,207
<b>Balance, End of Year</b>	<u>\$ 2,648,581</u>	<u>\$ 167,539</u>	<u>\$ 2,816,120</u>
<b>Reconciliation of Operating Loss to Net Cash Provided By (Used In) Operating Activities:</b>			
Operating income (loss)	\$ (8,127,444)	\$ 70,539	\$ (8,056,905)
<b>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:</b>			
Depreciation	804,759		804,759
On-behalf revenues	878,107	101,198	979,305
Donated commodities used in operations	758,101		758,101
Changes in operating assets and liabilities			
Accounts receivable	(297,963)	(7,761)	(305,724)
Inventory	22,175		22,175
Accounts payable	486,501	2,830	489,331
Due to other funds	(436,712)		(436,712)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u>\$ (5,912,476)</u>	<u>\$ 166,806</u>	<u>\$ (5,745,670)</u>
<b>Schedule of non-cash transactions</b>			
Donated commodities received from federal government:	<u>\$ 758,101</u>		<u>\$ 758,101</u>

See Accompanying Notes to Financial Statements

Statement of Fiduciary Net Assets

**Fayette County School District**

June 30, 2009

	Private Purpose Trust Funds	Agency Funds	
		Marcie Thomason Fund	School Activity Fund
<b>Assets</b>			
Cash and cash equivalents	\$ 318,207	\$ 91,133	\$ 2,256,508
Temporary cash investments			18,553
Accounts receivable			21,610
Investments	758,491		
Due from Fayette County School District			39,045
Inventory			44,698
Employee loans receivable	8,328		
<b>Total Assets</b>	<b>1,085,026</b>	<b>\$ 91,133</b>	<b>\$ 2,380,414</b>
<b>Liabilities</b>			
Accounts payable	1,705		\$ 83,691
Due to Fayette County School District			7,061
Due to student groups		\$ 91,133	2,289,662
<b>Total Liabilities</b>	<b>1,705</b>	<b>\$ 91,133</b>	<b>\$ 2,380,414</b>
<b>Net Assets Held in Trust</b>	<b>\$ 1,083,321</b>		

See Accompanying Notes to Financial Statements

Statement of Changes in Fiduciary Net Assets

**Fayette County School District**

Year Ended June 30, 2009

	<u>Private Purpose Trust Funds</u>
<b>Additions</b>	
Contributions	\$ 16,120
Other income	<u>3,339</u>
<b>Total Additions</b>	19,459
<b>Deductions</b>	
Losses on investments	(208,046)
Benefits paid	<u>(9,980)</u>
<b>Total Deductions</b>	(218,026)
	<b>Change in Net Assets</b> (198,567)
<b>Net Assets Beginning of Year</b>	<u>1,281,888</u>
	<b>Net Assets End of Year</b> <u>\$ 1,083,321</u>

See Accompanying Notes to Financial Statements

Notes to Financial Statements

**Fayette County School District**

June 30, 2009

**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 band boosters, parent-teacher associations, etc.

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

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

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

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

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

Continued

**Fayette County School District**

June 30, 2009

**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, 2009

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

- (4) The Construction Fund accounts for funds from two sources. First, funds generated by sales of bond issues are used for various construction and renovation projects at educational facilities. Second, proceeds from the sale of properties and equipment owned by the District are to be used at the discretion of the Board for construction projects in future years. This is a major fund of the District.
- (5) The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy and also participates in the Kentucky School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a nonmajor fund of the District.
- (6) The Support Education Excellence in Kentucky ("SEEK") Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. This is a nonmajor fund of the District.
- (7) Permanent Funds include the Anthony Dey Fund, Lexington Industrial School Fund and the N. Isabel Schmidt Fund. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal may be used for purposes that support the District.

Proprietary Fund Types (Enterprise Funds)

- (1) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture ("USDA"). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund of the District.
- (2) The After School Fund is used to support the after school programs at the individual schools, which have their own program. These funds are used to support the resources needed to actively manage this program.

The District applies all Governmental Accounting Standards Boards ("GASB") pronouncements to proprietary funds as well as the Accounting Principles Board and Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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*.

Continued

**Fayette County School District**

June 30, 2009

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

- (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.

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

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

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

Continued

**Fayette County School District**

June 30, 2009

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

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

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

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

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

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

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

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

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

Continued

Notes to Financial Statements--Continued

**Fayette County School District**

June 30, 2009

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

The property tax rates assessed for the year ended June 30, 2009 were \$0.605 per \$100 valuation for real property and \$0.542 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 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 fiduciary net assets.

The Permanent Funds record investments at their quoted market prices in the statement of net assets. All realized gains and losses in fair value are recorded in the statement of activities.

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

All capital assets are recorded at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000 with the exception of technology purchases for which there is no threshold. 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.

Continued

**Fayette County School District**

June 30, 2009

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

Depreciation is computed using the straight-line method over the following useful lives for both governmental fund capital assets and proprietary fund capital assets:

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

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

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

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**--The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

Encumbrances are reported as a reservation of fund balance and are not reported as expenditures until incurred. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2009 in the governmental funds balance sheet.

Continued

Notes to Financial Statements--Continued

**Fayette County School District**

June 30, 2009

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

Fund Balance of the General Fund has been designated by the District for the following purposes:

<u>Designated Purpose</u>	<u>Amount</u>
Retirement leave	\$ 6,000,000
Construction	13,015,545
Energy and loss contingency	<u>5,029,059</u>
	<u>\$ 24,044,604</u>

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

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

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

**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 not be returned to it. The District's cash deposits are covered by Federal Depository Insurance up to \$100,000 per financial institution, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Effective October 3, 2008, The Federal Depository Insurance increased to \$250,000 per financial institution. This change is effective through December 31, 2013.

**Fayette County School District**

June 30, 2009

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

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

As of June 30, 2009, the District had the following investments:

<u>Fund Type</u>	<u>Investment Type</u>	<u>Fair Value</u>	<u>Moody's Rating</u>	<u>Weighted Average Maturity in Years</u>
Governmental	U.S. Treasury Notes	\$ 371,461	Aaa	1.79
Fiduciary-Private	Mutual Funds	758,491	A	N/A
Purpose Trust	Certificates of Deposit	42,806		0.5
Fiduciary-Agency		<u>42,806</u>		
		<u>\$ 1,172,758</u>		

Continued

**Fayette County School District**

June 30, 2009

**Note D--Investments--Continued**

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

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

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

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

**Note E--Receivables**

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

<b>Accounts and grants receivable from outside sources</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Total</b>
Accounts receivable	\$ 2,202,815	\$ 1,142,338	\$ 3,345,153
Taxes receivable	12,708,121		12,708,121
Grants receivable	12,295,358		12,295,358
	<u>\$ 27,206,294</u>	<u>\$ 1,142,338</u>	<u>\$ 28,348,632</u>

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

**Fayette County School District**

June 30, 2009

**Note F--Interfund Receivables and Payables**

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

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	KETS Match	\$671,006
Operating	General	Debt Service	Debt Service	238,857
Operating	General	Construction	Construction	4,457,926
Operating	Capital Outlay	Debt Service	Debt Service	128,420
Operating	Capital Outlay	Construction	Construction	5,033,534
Operating	Building Fund	Debt Service	Debt Service	13,880,302
Operating	Building Fund	Construction	Construction	12,965,256
Operating	Special Revenue	General Fund	Indirect Costs	971,812

Notes to Financial Statements--Continued

**Fayette County School District**

June 30, 2009

**Note G--Capital Assets**

Capital asset activity for the year ended June 30, 2009 consisted of the following:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2009</u>
<u>Governmental Activities</u>				
Land	\$ 6,682,596		\$ 11,300	\$ 6,671,296
Buildings and improvements	322,262,911		2,178,210	320,084,701
Technology equipment	19,692,586	\$ 2,847,770	1,665,858	20,874,498
Vehicles	17,219,453	2,360,373	4,795,087	14,784,739
General equipment	6,163,216	694,701	340,304	6,517,613
Construction in progress	81,902,009	11,725,208		93,627,217
	453,922,771	17,628,052	8,990,759	462,560,064
Less accumulated depreciation	168,876,647	13,211,131	8,831,036	173,256,742
Total governmental activities capital assets, net	<u>\$ 285,046,124</u>	<u>\$ 4,416,921</u>	<u>\$ 159,723</u>	<u>\$ 289,303,322</u>
<u>Business-Type Activities</u>				
Food service equipment	\$ 6,513,861	\$ 2,682,766	\$ 633,873	\$ 8,562,754
Technology equipment	418,380	55,701	61,815	412,266
	6,932,241	2,738,467	695,688	8,975,020
Less accumulated depreciation	5,351,539	804,759	673,758	5,482,540
Total business-type activities capital assets, net	<u>\$ 1,580,702</u>	<u>\$ 1,933,708</u>	<u>\$ 21,930</u>	<u>\$ 3,492,480</u>

Continued

Notes to Financial Statements--Continued

**Fayette County School District**

June 30, 2009

**Note G--Capital Assets--Continued**

Depreciation expense for the year ended June 30, 2009 for governmental activities by function is summarized below:

<u>Function</u>	<u>Amount</u>
Instructional	\$ 12,363,348
Instruction student support	2,766
District administration	8,142
Plant operations and maintenance	2,977
Student transportation	833,898
	<u>\$ 13,211,131</u>

**Note H--Capital Lease Obligations**

The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2009:

<u>Year Ending June 30</u>	<u>Amount</u>
2010	\$ 1,380,788
2011	1,345,063
2012	1,247,790
2013	1,217,205
2014	1,026,024
2013 and Thereafter	<u>2,301,926</u>
Total minimum lease payments	8,518,796
Less amount representing interest	<u>1,095,760</u>
Present value of net minimum lease payments	7,423,036
Capital lease obligations, due within one year	<u>1,120,649</u>
Capital lease obligations, due after one year	<u>\$ 6,302,387</u>

Continued

Notes to Financial Statements--Continued

**Fayette County School District**

June 30, 2009

**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, 2009</u>
Buses	<u>\$ 8,186,832</u>

**Note I--School Building Revenue Bonds**

Outstanding school building revenue bonds at June 30, 2009 are summarized as follows:

<u>Issue Date</u>	<u>Original Proceeds</u>	<u>Interest Rates</u>	<u>Balance June 30, 2009</u>
1995A	\$ 1,100,000	4.950% - 5.100%	\$ 100,000
1995C	26,605,000	4.500% - 5.250%	715,000
1998	15,575,000	4.375% - 4.500%	9,510,000
2000	14,365,000	5.300% - 5.500%	385,000
2001A	12,880,000	4.000% - 5.250%	12,620,000
2002A	7,095,000	1.900% - 4.125%	2,913,778
2003A	17,505,000	2.000% - 4.500%	16,430,000
2004A	13,505,000	2.500% - 3.750%	12,350,000
2004B	15,160,000	2.500% - 4.000%	14,370,000
2005A	52,710,000	4.000% - 5.000%	48,780,000
2005B	25,735,000	3.000% - 4.000%	25,150,000
2005C	13,065,000	3.500% - 4.000%	12,550,000
2007A	36,450,000	4.375% - 4.500%	36,070,000
2009A	41,150,000	1.600% - 5.375%	<u>41,150,000</u>
			233,093,778
			<u>4,155,588</u>
			<u>\$ 228,938,190</u>

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

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

Continued

Notes to Financial Statements--Continued

**Fayette County School District**

June 30, 2009

**Note I--School Building Revenue Bonds--Continued**

In connection with the school building revenue bonds issued after May 1, 1996, the District entered into "participation agreements" with the Kentucky School Facilities Construction Commission (the "Commission"). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The Commission will remit a stated amount of bond principal and interest payments annually, subject to biennial approval by the Kentucky General Assembly. Approval has been received for the biennial fiscal period ended June 30, 2010. Should approval not be received in future periods, the District remains obligated for the full amount of the bond principal and interest payments.

The bonds may be called prior to maturity by the District and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, for debt service as of June 30, 2009 (principal and interest) are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Commission Participation</u>	<u>District's Portion</u>
2010	\$ 8,813,778	\$ 9,826,875	\$ 1,859,672	\$ 16,780,981
2011	9,840,000	9,585,299	1,858,067	17,567,232
2012	10,075,000	9,257,968	1,683,336	17,649,632
2013	10,560,000	8,903,369	1,647,499	17,815,870
2014	10,935,000	8,529,023	1,530,608	17,933,415
2015-2019	66,460,000	35,269,235	7,638,167	94,091,068
2020-2024	69,155,000	20,542,957	6,855,653	82,842,304
2025-2029	47,255,000	5,202,545	2,892,564	49,564,981
	<u>\$ 233,093,778</u>	<u>\$ 107,117,271</u>	<u>\$ 25,965,566</u>	<u>\$ 314,245,483</u>

During the year ended June 30, 2009, the District made principal payments of \$8,744,943. Additionally, the District issued revenue bonds in the amount of \$41,150,000 during 2009.

In July 2009, the District issued revenue bonds in the amount of \$8,955,000.

Defeased Bonds

As of June 30, 2009, the outstanding principal amount of indebtedness that is considered to be extinguished under "in substance defeasance" and therefore excluded from the financial statements was approximately \$35,705,000.

Notes to Financial Statements--Continued

**Fayette County School District**

June 30, 2009

**Note J--Accrued Sick Leave**

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

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

**Note K--Long-Term Liabilities**

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2009 is as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2009</u>
<u>Governmental Activities</u>				
School building				
revenue bonds	\$ 196,042,594	\$ 41,150,000	\$ 8,254,404	\$ 228,938,190
Capital lease obligations	7,324,339	1,098,197	999,500	7,423,036
Estimated liability				
for workers'				
compensation				
benefits	559,082	594,155	694,993	458,244
Total accrued sick leave	<u>3,263,584</u>	<u>1,351,831</u>	<u>1,214,537</u>	<u>3,400,878</u>
	<u>\$ 207,189,599</u>	<u>\$ 44,194,183</u>	<u>\$ 11,163,434</u>	<u>\$ 240,220,348</u>

**Note L--On-Behalf Payments**

For the year ended June 30, 2009, total payments of \$51,086,466 were made for life insurance, health insurance, Kentucky Teachers Retirement System ("KTRS") matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expenditure/expense accounts on the statement of activities and on the statement of revenues, expenditures and changes in fund balances. These revenues and expenditures are not budgeted by the District.

**Fayette County School District**

June 30, 2009

**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 the plaintiff in a civil claim by a former student. A total judgment of approximately \$3.9 million was assessed against the District. Post trial motions are pending, and an appeal of the judgment is planned if the motions are denied. An estimated 50% of the judgment has been recorded as a liability until it is determined if the District is responsible for the payment.

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 fire, personal liability, theft, vehicular accidents, errors and omissions, and fiduciary responsibility. Each of these risk areas is addressed through the purchase of commercial insurance. The District has purchased certain coverages which are retrospectively rated, including workers' compensation insurance.

Continued

**Fayette County School District**

June 30, 2009

**Note O--Risk Management--Continued**

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

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

The District implemented an arrangement with the Kentucky School Board Insurance Trust Liability Insurance Fund for workers' compensation. Under the arrangement, the District is responsible for the first \$15,000 of each claim incurred during the fiscal year, up to a \$600,000 stop-loss amount. If and when the deductible amounts paid by the District reach the \$600,000 stop-loss amount, the District ceases to be liable for any further expenses related to those claimants. At that point, the District becomes responsible for a \$1,000 per claim "maintenance deductible" for additional claims. At June 30, 2009, the District has a reserve in the amount of \$458,244 for claims incurred but not yet reported.

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

**Fayette County School District**

June 30, 2009

**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 is 13.5% 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, 2009, 2008, and 2007 were approximately \$6,268,000, \$7,264,000, and \$5,352,000, respectively, equal to the required contribution for that year.

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

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

Plan members are required to contribute 9.855% of their annual covered compensation and all new members hired after June 30, 2008 are required to contribute 10.855% of their annual covered compensation. The Commonwealth of Kentucky provides matching contributions as required by Kentucky Revised Statutes 165.540 and 161.550. The payments made by the Commonwealth of Kentucky on behalf of the District's certified employees, amounting to \$21,277,874, 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, 2009, this funding amounted to approximately \$1,459,818.

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

Continued

Notes to Financial Statements--Continued

**Fayette County School District**

June 30, 2009

**Note P--Retirement Plans--Continued**

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

**Note Q--Deferred Compensation**

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

**Note R--Post-Employment Health Care Benefits**

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

**Note S--Commitments**

As of June 30, 2009, the District had outstanding commitments for construction approximating \$85,093,000.

**Note T--COBRA**

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

**Required Supplementary Information**

**Budgetary Comparison Information**

Statement of Revenues and Expenditures - Budget and Actual  
General Fund

Fayette County School District

Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From local sources				
Property taxes	\$ 114,713,371	\$ 117,536,466	\$ 121,281,518	\$ 3,745,052
Motor vehicle taxes	9,382,131	9,523,243	9,047,744	(475,499)
Utility taxes	19,866,605	21,729,258	21,806,906	77,648
Occupational license tax	27,878,162	27,878,162	27,794,302	(83,860)
Earnings on investments	1,834,547	1,656,461	895,294	(761,167)
Other sources	1,598,413	3,326,173	3,673,793	347,620
State sources				
SEEK	68,430,645	73,828,610	73,828,610	
Other state revenues	964,011	964,011	50,992,888	50,028,877
<b>Total Revenues</b>	<b>244,667,885</b>	<b>256,442,384</b>	<b>309,321,055</b>	<b>52,878,671</b>
<b>Expenditures</b>				
Instruction	136,937,261	157,973,078	185,035,959	(27,062,881)
Support services				
Student	15,429,659	14,531,860	15,959,502	(1,427,642)
Instruction staff	12,823,299	14,054,563	14,009,143	45,420
District administration	4,192,916	4,511,155	4,363,300	147,855
School administration	15,167,485	14,501,139	14,487,231	13,908
Business	17,399,060	19,449,030	15,275,676	4,173,354
Plant operation and maintenance	32,715,835	38,042,477	33,038,367	5,004,110
Student transportation	12,890,498	14,929,669	11,134,103	3,795,566
Debt service	1,751,610	1,751,610	1,258,059	493,551
<b>Total Expenditures</b>	<b>249,307,623</b>	<b>279,744,581</b>	<b>294,561,340</b>	<b>(14,816,759)</b>
<b>Excess (Deficit) of Revenues Over (Under) Expenditures</b>	<b>(4,639,738)</b>	<b>(23,302,197)</b>	<b>14,759,715</b>	<b>38,061,912</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of fixed assets			1,318,172	1,318,172
Operating transfer in	1,024,868	759,919	971,812	211,893
Operating transfers out	(985,129)	(5,443,055)	(5,367,789)	75,266
<b>Total Other Financing Sources (Uses)</b>	<b>39,739</b>	<b>(4,683,136)</b>	<b>(3,077,805)</b>	<b>1,605,331</b>
<b>Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>\$ (4,599,999)</b>	<b>\$ (27,985,333)</b>	<b>\$ 11,681,910</b>	<b>\$ 39,667,243</b>

See Accompanying Independent Auditors' Report

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

Fayette County School District

Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From local sources				
Other sources	\$ 68,865	\$ 843,672	\$ 353,306	\$ (490,366)
State sources				
Other state revenues	10,728,793	11,221,440	15,238,773	4,017,333
Governmental grants	21,408,726	32,165,742	22,132,894	(10,032,848)
<b>Total Revenues</b>	<b>32,206,384</b>	<b>44,230,854</b>	<b>37,724,973</b>	<b>(6,505,881)</b>
<b>Expenditures</b>				
Instruction	23,269,296	33,209,436	26,125,126	7,084,310
Support services				
Student	1,733,189	3,094,242	1,873,813	1,220,429
Instruction staff	2,458,354	2,156,558	3,951,214	(1,794,656)
District administration		8,619	6,462	2,157
School administration	1,536,109	1,438,363	2,119,434	(681,071)
Business		2,000	573,366	(571,366)
Plant operation and maintenance	86,940	88,440	99,146	(10,706)
Student transportation	547,727	847,727	269,375	578,352
Community service activities	2,409,695	2,409,695	2,406,231	3,464
<b>Total Expenditures</b>	<b>32,041,310</b>	<b>43,255,080</b>	<b>37,424,167</b>	<b>5,830,913</b>
<b>Excess of Revenues Over Expenditure</b>	<b>165,074</b>	<b>975,774</b>	<b>300,806</b>	<b>(674,968)</b>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in			671,006	671,006
Operating transfer out	(165,074)	(975,775)	(971,812)	3,963
<b>Total Financing Sources (Uses)</b>	<b>(165,074)</b>	<b>(975,775)</b>	<b>(300,806)</b>	<b>674,969</b>
<b>Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

See Accompanying Independent Auditors' Report

**Combining Supplementary Information**

Combining Balance Sheet - Nonmajor Governmental Funds

Fayette County School District

June 30, 2009

	Permanent Funds					Total Nonmajor Governmental Funds
	SEEK Capital Outlay Fund	Building Fund	Anthony Dey Fund	Lexington Industrial School Fund	N. Isabel Schmidt Fund	
<b>Assets</b>						
Cash and cash equivalents		\$ 821	\$ 36,124	\$ 10,580	\$ 194,761	\$ 242,286
Other receivables					371,461	371,461
Investments						
<b>Total Assets</b>	\$	\$ 821	\$ 36,124	\$ 10,580	\$ 566,222	\$ 613,747
<b>Fund Balances</b>						
Unreserved designated for:						
Capital projects funds		\$ 821				\$ 821
Reserved						
Permanent Funds			\$ 36,124	\$ 10,580	\$ 566,222	612,926
<b>Total Fund Balances</b>		821	36,124	10,580	566,222	613,747
<b>Total Liabilities and Fund Balances</b>	\$	\$ 821	\$ 36,124	\$ 10,580	\$ 566,222	\$ 613,747

See Accompanying Independent Auditors' Report

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

Fayette County School District

For the Year Ended June 30, 2009

	SEEK Capital Outlay Fund	Permanent Funds				Total Nonmajor Governmental Funds
		Building Fund	Anthony Dey Fund	Lexington Industrial School Fund	N. Isabel Schmidt Fund	
<b>Revenues</b>						
From local sources		\$ 23,032,270				\$ 23,032,270
Property taxes		785,037				785,037
Motor vehicle taxes						
Earnings on investments	\$ 33,458	60,487	\$ 380	\$ 111	\$ 2,050	96,486
Other sources				4,439	1,337	5,776
State sources						
SEEK	3,184,032					3,184,032
<b>Total Revenues</b>	3,217,490	23,877,794	380	4,550	3,387	27,103,601
<b>Expenditures</b>						
Support Services:						
Business	543,653					543,653
Community service activities			5,156	14,811	41,253	61,220
<b>Total Expenditures</b>	543,653		5,156	14,811	41,253	604,873
<b>Excess (Deficit) of Revenues Over Expenditures</b>	2,673,837	23,877,794	(4,776)	(10,261)	(37,866)	26,498,728
<b>Other Financing Sources (Uses)</b>						
Operating transfers out	(5,161,954)	(26,845,560)				(32,007,514)
<b>Total Other Financing Sources (Uses)</b>	(5,161,954)	(26,845,560)				(32,007,514)
<b>Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	(2,488,117)	(2,967,766)	(4,776)	(10,261)	(37,866)	(5,508,786)
<b>Fund Balance Beginning of Year</b>	2,488,117	2,968,587	40,900	20,841	604,088	6,122,533
<b>Fund Balance End of Year</b>	\$	\$ 821	\$ 36,124	\$ 10,580	\$ 566,222	\$ 613,747

See Accompanying Independent Auditors' Report