LBMC

Fayette County School District

2025 Client Service Communication

Members of the Board
Fayette County School District

Dear Members of the Board:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Fayette County School District (the "District"), as of and for the year ended June 30, 2025, and have issued our report thereon dated December 17, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 27, 2025. Professional standards also require that we communicate to you certain other matters related to our audit.

This report is intended solely for the information and use of the audit committee, board of directors, and management of Fayette County School District and is not intended to be and should not be used by anyone other than these specified parties.

LBMC, PC

Louisville, Kentucky
December 17, 2025

LBMC

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Scope of Attest Services	LBMC was engaged to perform an audit of the District's 2025 financial statements and to perform certain limited procedures over the required supplementary information ("RSI") and supplementary information ("SI") in accordance with auditing standards generally accepted in the United States of America.
The District's Internal Controls	Management is responsible for the preparation and fair presentation of the financial statements RSI, SI and maintaining internal controls.
Attest Deliverable	LBMC issued an unmodified opinion on the District's financial statements and communicated certain matters relating to the audited financial statements.
Other Services	Performed certain nonattest services including drafting certain aspects of the financial statements and assisting with pension and other post-employment benefits calculations in coordination with the audit. We provided management with any and all accounting records that were prepared by LBMC in connection with the nonattest services set forth above. Management is responsible for retaining these accounting records, including supporting schedules as an integral part of the District's accounting records, which include the below: • Draft of financial statements and footnotes derived from balances and schedules provided by management, including the mapped adjusted trial balances. • Pension and other post-employment benefits schedules

Area	Detail
Qualitative Aspects of Accounting Practices – Accounting Policies	Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note B to the financial statements. As discussed in Note W to the financial statements, the District adopted Governmental Accounting Standards Board ("GASB") Statement No. 101, *Compensated Absences*, and GASB Statement No. 102, *Certain Risk Disclosures,* during the year. We are not aware of any transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
Qualitative Aspects of Accounting Practices - Estimates	Accounting estimates are an integral part of the District's financial statements and are based on management's knowledge and experience, as well as certain assumptions. Certain accounting estimates are particularly sensitive due to: (i) their significance to the financial statements; and (ii) uncertainties inherent in the estimation process. The most sensitive estimates affecting the financial statements relate to: • Depreciable lives of property and equipment • Liability for compensated absences (vacation pay and sick leave) • Net pension liability • Net other post-employment benefits asset and liabilities We evaluated the key factors and assumptions used to develop each of these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.
Qualitative Aspects of Accounting Practices – Disclosures	Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements relate to: • Note U - Pension Plans • Note V – Other Post-Employment Benefits ("OPEB") Financial statement disclosures are neutral, consistent, and clear.

Corrected and Uncorrected Misstatements

Misstatements identified during the audit that are more than clearly trivial in nature and magnitude have been communicated to management. Management has corrected all such misstatements. The following misstatements detected through our audit procedures and corrected by management are considered to be material – adjustments for bond issuances.

Area	Detail
Difficulties Encountered in Performing the Audit	For purposes of this report, "difficulties" may include matters such as: • the unavailability of, or significant delays in management providing information, • an unreasonable time frame within which to complete the audit, • extensive unexpected effort required to obtain audit evidence, or • restrictions imposed on the auditor by management. We encountered no significant difficulties in performing and completing our audit.
Disagreements with Management	For purposes of this report "disagreements with management" include matters that, individually or in the aggregate, could be significant to the District's financial statements or the auditors' report, regardless of whether they were satisfactorily resolved. Examples of such matters include, but are not limited to, the application of accounting principles to a specific transaction, the basis for management's judgments about accounting estimates, and the scope of the audit. We are pleased to report that no such disagreements arose during the course of our audit.
Management Consultations with other Independent Accountants	If management were to consult with other accountants about the application of an accounting principle to the District's financial statements or the type of auditors' opinion that may be expressed on those statements, professional standards require the consulting accountant to confer with us to determine that the consultant has all relevant facts. To our knowledge, there were no such consultations with other accountants.
Management Representations	We have requested certain representations from management that are included in the management representation letter dated December 17, 2025.
Independence	We are not aware of any relationships between our firm and the District that, in our professional judgment, may reasonably be thought to bear on our independence that have occurred during the period from July 1, 2024 through the date of this report.
Other Findings or Issues	We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year both prior to, and subsequent to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.
Information Accompanying the Financial Statements	With respect to the required supplementary information and supplementary information accompanying the financial statements we performed certain procedures as described in our auditors' report in order to determine that such information is appropriate and complete in relation to our audit of the basic financial statements.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

We consider item 2025-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the item 2025-002 to be a significant deficiency.

2025-001	Recording of Bonds
Condition:	During the fiscal year, the District issued three bonds. Of those, liabilities associated with the Series 2025 General Obligation Refunding Bonds ($102,770,00 principal amount) and the Series 2025A General Obligation Bonds ($221,900,000 principal amount) were not recorded in Fund 9 or on the district-wide financial statements. The proceeds were recorded in Fund 360 (Construction Fund).
Criteria:	When bonds are issued, the associated liabilities should be recorded in accordance with generally accepted accounting principles (GAAP).
Cause:	Policies and procedures have not been implemented to ensure proper recording and review of accounting for bond issuances and related transactions.
Effect:	The liabilities associated with two of the three bonds issued during the fiscal year were not properly recorded, resulting in a material misstatement of Fund 9, as well as the district-wide financial statements.
Recommendation:	We recommend that new bond issuances be recorded promptly in all applicable funds to ensure accurate financial reporting. We also recommend that supporting schedules be updated at the time of issuance. In addition, we recommend that the District establish formal policies and procedures to regularly reconcile liability balances with supporting schedules and when applicable, third-party statements. These reconciliations and trial balances should be reviewed and approved on a regular basis and such review and approval should be documented accordingly.

Views of Responsible Officials and Planned Corrective Actions:	Management agrees with the audit comment and recommendations. We acknowledge that the material weaknesses identified have been compounded by a recent history of significant staff turnover in this key position, which has resulted in a lack of consistent and accessible guidance for incoming personnel. To address these findings and ensure the sustainability of corrective action, the District is implementing the following steps within the current fiscal year: 1. Targeted Training: Current staff responsible for debt service will attend specific, relevant training focused on debt service and liability management for Kentucky school districts. 2. Developing Formal Procedures: We are committed to developing a formal, comprehensive written procedure document that will serve as the primary, standardized guidance for current and future staff, thereby mitigating future transition risks.

2025-002	Building Fund Allocation
Condition:	A third nickel was allocated to the Building Fund for the fiscal year ended June 30, 2025.
Criteria:	Amounts allocated to the Building Fund for the year ended June 30, 2025 should have been $44,208,940. Actual amounts allocated were $64,256,167.
Cause:	In August 2007 the District received Department of Property Taxation and Department of Education certified net assessment growth and tax rates. At the time staff recommended that the Board approve a rate of 59.3 cents for real estate and 54.1 cents for personal property plus the allowable 0.1 cents increase on real estate and personal property to recover prior year losses due to exonerations. The 59.4 cents real estate rate included a recallable 5.5 cents for debt service, new facilities and/or major renovations/maintenance. This was the first time the district pursued a recallable facilities nickel related to real property. Management was unaware that the budget should be coded in general fund not building fund.
Effect:	Additional funds were allocated to the Building Fund over what was allowed.
Recommendation:	We recommend that the excess funds allocated to the Building Fund be transferred to the General Fund and procedures be implemented to avoid such occurrences in the future .
Views of Responsible Officials and Planned Corrective Actions:	Management agrees. To address this recommendation and ensure the returned funds are tracked with full accountability, the Financial Officer/Treasurer will immediately initiate the establishment of a dedicated financial tracking and reporting mechanism within the General Fund. This new process will be modeled after the successful, publicly reported structure currently used for the Safety Tax Nickel. This approach ensures funds, exceeding the $44,208,940 transferred back, are utilized and monitored against specific goals consistent with the original intent related to debt service, maintenance and operation related functions for schools. Specifically, the following actions will be implemented: 1. Dedicated Fund and Account Structure: The necessary funds (including the transferred excess funds) will be segregated or tracked via dedicated project accounts within the General Fund to ensure funds allocated for the targeted purposes are easily identifiable and non-commingled for tracking purposes.

Views of Responsible Officials and Planned Corrective Actions--Continued:	2. Focused Utilization: The primary focus for the utilization of these dedicated funds will be Debt Service, essential Maintenance and Renovations of existing facilities, and direct support for schools to help them comply with regulatory and long-term capital needs, thus upholding the original intent of the funding. 3. Public Reporting Commitment: The Finance Officer/Treasurer will prepare and present a Dedicated Monthly Report to the Board of Education and Superintendent. This report will explicitly detail the following: o The balance of the dedicated funds. o Expenditures categorized by debt service, maintenance/renovations, and related direct school support. 4. Responsible Parties: Financial Officer/Treasurer as designee of the Superintendent. Target Implementation Date: January 2026 By adopting this dedicated reporting structure, management is committed to providing a transparent record that clearly demonstrates the utilization of these funds in support of our core priorities and the community's trust that reflect two nickels are in building fund and the other two remaining nickels of Safety and Debt/Maintenance will be in general fund.

Recent GASB Pronouncements

The GASB has issued several reporting standards that will become effective for fiscal 2026 and later years' financial statements:

• Statement No. 103, *Financial Reporting Model Improvements*, provides targeted improvements to the financial reporting model that was established for state and local governments in 1999 by GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*.

• Statement No. 104, *Disclosure of Certain Capital Assets*, provides users of government financial statements with essential information concerning two types of capital assets: (1) capital associated with leases and other intangible assets and (2) capital assets held for sale.

Client Service is a Priority

For additional information or if you have questions, please contact the Audit Client Shareholder.

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