

**RUSSELL INDEPENDENT
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



**Kelley,
Galloway &
Company, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	3-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-9
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements -	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements -	
Balance Sheet - Governmental Funds.....	12
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Assets - Proprietary Funds.....	16
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	17
Statement of Cash Flows - Proprietary Funds.....	18
Statement of Net Assets - Fiduciary Funds	19
Statement of Changes in Net Assets - Fiduciary Funds	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - (Non-GAAP Budgetary Basis) - General Fund.....	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue Fund.....	22
Notes to Financial Statements.....	23-35
SUPPLEMENTAL INFORMATION:	
Combining Balance Sheet - Non-Major Governmental Funds.....	36
Combining Statement of Revenues, Expenditures and Changes In Fund Balances - Non-Major Governmental Funds.....	37
Combining Statement of Revenues, Expenditures and Changes In Fund Balances - Non-Major Debt Service Funds	38
Statement of Changes in Assets and Liabilities - School Activity Funds	39
Statement of Changes in Assets and Liabilities - Russell High School Activity and Scholarship Funds.....	40-41
Schedule of Expenditures of Federal Awards	42-43
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	44-45

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	46-47
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	48
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	49
CORRECTIVE ACTION PLAN.....	50



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

- 1200 CORPORATE COURT • P. O. BOX 990 • ASHLAND, KENTUCKY 41105-0990 •
- Phone (606) 329-1811 • Fax (606) 329-8756 • E-mail contact@kelleygalloway.com • Web site www.kelleygalloway.com •

Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North America Network

INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Russell Independent School District
Russell, 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 Russell Independent School District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Russell Independent School District. Our responsibility is to express opinions on these basic 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; OMB Circular A-133, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements* and *Appendix II to the Independent Auditor's Contract - State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Russell Independent School District as of June 30, 2012, and the respective changes in financial position and cash flows of its proprietary fund types and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2012, on our consideration of Russell Independent School District's internal control over financial reporting and 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to this required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Russell Independent School District's financial statements. The accompanying combining and individual non-major fund financial statements contained on pages 36-41 and schedule of expenditures of federal awards contained on page 42-43, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

Kubler, Hollman & Company, PSC

October 10, 2012

**RUSSELL INDEPENDENT SCHOOL DISTRICT - RUSSELL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2012**

As management of the Russell Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the report.

FINANCIAL HIGHLIGHTS

- The General Fund ending cash balance for the District increased from \$1.85 million at June 30, 2011 to \$2.87 million at June 30, 2012. The increase was primarily due to property, utility and motor vehicle tax collections above budget, EduJobs stimulus monies received for the 2011-2012 year alone, and various expenditure reductions; offset by SEEK collections below budget and construction costs funded by the General Fund.
- The Russell Independent Board of Education made significant improvements to facilities during 2011-2012. A major renovation to Russell Middle School was undertaken. Improvements to the Middle School included a new roof, new heating and air system, sprinkler system, improved data wiring, bathroom upgrades, the addition of an administrative wing, and new exterior curtain walls. The cost of the renovation was \$6.1 million, paid for with a bond issuance and restricted monies from the Kentucky School Facilities Construction Commission and the Kentucky Department of Education. Also completed was the new Russell Athletic Center, which features a large home locker room, weight-lifting facility and equipment, and new public restrooms. The cost of this facility was paid from the General Fund at \$1.1 million. Finally, the Board purchased land adjacent to the rear of Russell Primary School that can be used as a possible outlet to connect the property to Diederich Boulevard.
- During fiscal 2012, the District began to feel the impact from the local economic climate, due to funding reductions from the Kentucky Department of Education and the state legislature. As stated, the District received a significant reduction in SEEK funding. Also, the burden of increased percentage match for the retirement fund of certified staff will grow to \$250,000 by the year 2015. This and other income and expenditure fluctuations will be monitored closely by administration to ensure that necessary expenditure reductions occur to continue the solvency of the District.
- The General Fund had \$16.3 million in revenue of which 66.0% consisted of state funding (SEEK program and on-behalf payments for insurance and retirement) and 33.7% in property, utilities, and motor vehicle taxes. Funding from the Commonwealth continued to decline in this year, and the local District is expected to compensate for the shortage. The Board will continue to utilize tax increases as allowed by the legislature to compensate for the shortfall of state funding.
- Bonds were issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with the Kentucky Department of Education (KDE) stringent compliance regulations. The District made \$805,752 in bond payments during the 2011-2012 year.
- The average daily attendance for students declined slightly from 2,015 students in 2011 to 2,013 in 2012. The SEEK funding is based upon average daily attendance. The District will continue efforts to increase student attendance. The District experienced the highest percentage of attendance in the history of keeping said record at 95.51% during 2011-2012.
- The financial statements include payments made by the Commonwealth of Kentucky for retirement, health insurance, life insurance, administrative fees and utilization of the Russell Area Vocational School by our students. The total amount was \$2.67 and \$2.78 million for the

2012 and 2011 fiscal years, respectively. These amounts are shown as both revenue and expenses in the financial statements, and therefore, do not affect the fund position of the District. The amounts are recorded primarily in the General Fund and should be considered in the review of these financial statements and portions of this analysis that are indicated.

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 basic financial statements comprise three components: 1) government-wide, 2) fund, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-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 or deteriorating. 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 only result in cash flows in future fiscal periods.

The government-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, operation and maintenance of plant, and student transportation. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 10 and 11 of this report.

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

The basic governmental fund financial statements can be found on pages 12 through 22 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 government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by approximately \$11.1 and \$9.9 million as of June 30, 2012 and 2011, respectively.

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. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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.

Net Asset comparison for the periods ending June 30, 2012 and 2011

The District's net asset position is shown comparatively as follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Current Assets	\$ 4,317,273	\$ 9,040,479
Noncurrent Assets	21,853,616	16,725,401
Total Assets	<u>\$ 26,170,889</u>	<u>\$ 25,765,880</u>
Current Liabilities	\$ 1,470,313	\$ 1,720,590
Noncurrent Liabilities	13,569,640	14,162,827
Total Liabilities	<u>15,039,953</u>	<u>15,883,417</u>
Net Assets		
Investment in capital assets (net of debt)	7,710,394	1,993,795
Restricted	745,862	5,831,755
Unrestricted	2,674,680	2,056,913
Total Net Assets	<u>\$ 11,130,936</u>	<u>\$ 9,882,463</u>

The overall net asset position for 2012 as compared to 2011 increased by approximately \$1.25 million, or 12.6%, due primarily to increased revenue and reduction of expenditures.

FUND FINANCIAL ANALYSIS

Excluding the on-behalf payments for the District, which we do not budget, the District's total General Fund revenues for 2012 exceeded budgeted revenues by approximately \$.3 million, or 2.6%. This resulted primarily from higher than expected property, motor vehicle and utility tax collections. Actual General Fund expenditures, excluding the contingency reserve, were approximately \$.3 million less than budget, due to energy management savings, sick leave expense below budget, and reduction in maintenance supplies.

Of the total General Fund expenditures, site-based councils expended 70.9%, while 11.6% was spent for maintenance and operations, 6.2% on administration, 5.2% on transportation, and 6.1% on children with special needs.

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2012 and 2011 for selected funds (including on-behalf payments):

June 30, 2012

Revenues:	General Fund	Special Revenue	Capital Projects	Food Service	Total
Local revenue sources	\$ 5,548,861	\$ 96,655	\$ 393,551	\$ 457,905	\$ 6,496,972
State revenue sources	10,789,035	426,931	893,072	69,452	12,178,490
Federal revenue	-	1,424,453	-	541,163	1,965,616
Bond refunding	-	-	1,780,000	-	1,780,000
Other sources	113,052	45,300	202,081	1,743	362,176
Total Revenues	<u>16,450,948</u>	<u>1,993,339</u>	<u>3,268,704</u>	<u>1,070,263</u>	<u>22,783,254</u>

Expenses:					
Instruction	\$ 8,964,656	\$ 1,495,568	-	-	10,460,224
Student support services	680,837	1,147	-	-	681,984
Instructional support	1,147,097	372,276	-	-	1,519,373
District administration	803,507	-	-	-	803,507
School administration	965,573	-	-	-	965,573
Business support	169,501	-	-	-	169,501
Plant operations	1,807,340	-	-	-	1,807,340
Student transportation	819,012	13,115	-	-	832,127
Community support	15,312	111,233	-	-	126,545
Food services	39,907	-	-	1,038,365	1,078,272
Facilities acquisition and construction	-	-	5,539,104	-	5,539,104
Debt service	53,275	-	1,250,935	-	1,304,210
Bond refunding payment	-	-	1,780,000	-	1,780,000
Transfers	142,701	-	35,287	-	177,988
Total expenses	<u>15,608,718</u>	<u>1,993,339</u>	<u>8,605,326</u>	<u>1,038,365</u>	<u>27,245,748</u>

Revenues over (under) expenses	<u>\$ 842,230</u>	<u>\$ -</u>	<u>\$ (5,336,622)</u>	<u>\$ 31,898</u>	<u>\$ (4,462,494)</u>
-----------------------------------	-------------------	-------------	-----------------------	------------------	-----------------------

June 30, 2011

Revenues:	General Fund	Special Revenue	Capital Projects	Food Service	Total
Local revenue sources	\$ 5,367,910	\$ 82,595	\$ 391,211	\$ 468,426	\$ 6,310,142
State revenue sources	10,392,854	463,529	789,063	71,894	11,717,340
Federal revenue	-	1,994,807	-	499,711	2,494,518
Bond Issue	-	-	6,130,000	-	6,130,000
Other sources	739	55,405	1,876,251	-	1,932,395
Total Revenues	<u>15,761,503</u>	<u>2,596,336</u>	<u>9,186,525</u>	<u>1,040,031</u>	<u>28,584,395</u>

Expenses:					
Instruction	\$ 9,123,875	\$ 2,030,836	-	-	11,154,711
Student support services	546,709	-	-	-	546,709
Instructional support	1,066,111	436,966	-	-	1,503,077
District administration	698,744	-	-	-	698,744
School administration	871,106	-	-	-	871,106
Business support	166,084	-	-	-	166,084
Plant operations	1,957,311	-	-	-	1,957,311
Student transportation	653,660	16,677	-	-	670,337
Community support	47,181	111,857	-	-	159,038
Food services	27,713	-	-	1,004,040	1,031,753
Facilities acquisition and construction	-	-	2,178,705	-	2,178,705
Debt service	53,288	-	980,532	-	1,033,820
Transfers	1,191,425	-	740,227	-	1,931,652
Total expenses	<u>16,403,207</u>	<u>2,596,336</u>	<u>3,899,464</u>	<u>1,004,040</u>	<u>23,903,047</u>

Revenues over (under) expenses	<u>\$ (641,704)</u>	<u>\$ -</u>	<u>\$ 5,287,061</u>	<u>\$ 35,991</u>	<u>\$ 4,681,348</u>
-----------------------------------	---------------------	-------------	---------------------	------------------	---------------------

BUDGETARY IMPLICATIONS FOR 2011-2012

In Kentucky, the public school fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District anticipates adoption of a budget in September 2012 well in excess of the minimum. The District will utilize the ending cash position of the General Fund to facilitate shortfalls in funding by the Commonwealth, including professional development, textbooks and preschool instruction. It is estimated the General Fund will contribute in excess of \$200,000 to these and other programs during the coming period. This is due to continued legislative cuts to these programs and to SEEK funding. The District's contingency balance will allow funding of these shortfalls, however, if the reductions continue, along with rising expenditures, including, Kentucky Teacher Retirement matching and step raises for staff, programs will suffer staff and supply reductions. The ability for the District to find sources of revenue increases is limited to incremental tax levies. District administration is very aware of various funding circumstances for the future and will conservatively manage the financial aspects of the District in order to find solutions with the least impact to children.

The 2012-2013 budget, adopted by the board in May 2012, is considered adequately funded with a 17.2% contingency balance.

The Board will look to increase the tax revenue base to maintain operational expenditures in August 2012.

We at Russell Independent will continue to make every effort to ensure that our students enjoy the most challenging academic opportunities, a safe environment, excellent facilities and competitive athletic opportunities.

Questions regarding this report should be directed to Superintendent Dr. Susan E. Compton or to Dennis C. Chambers, CPA, Director of Finance at (606) 836-9679 or by mail at 409 Belfont Street, Russell, Kentucky 41169-1320.

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 3,600,320	\$ 230,060	\$ 3,830,380
Receivables (net of allowances for uncollectibles):			
Property taxes	211,938	-	211,938
Other	18,622	-	18,622
Intergovernmental - federal	232,885	-	232,885
Inventories	-	23,448	23,448
Capital assets, not being depreciated	6,292,972	-	6,292,972
Capital assets, being depreciated, net	15,414,433	146,211	15,560,644
Total assets	<u>25,771,170</u>	<u>399,719</u>	<u>26,170,889</u>
Liabilities			
Accounts payable	340,431	237	340,668
Accrued payroll and employee benefits	105,864	-	105,864
Deferred revenue	211,754	-	211,754
Noncurrent liabilities:			
Portion due or payable within one year:			
Bond obligations	770,000	-	770,000
Note payable	42,027	-	42,027
Portion due or payable after one year:			
Bond obligations	13,115,000	-	13,115,000
Note payable	216,195	-	216,195
Accrued sick leave	238,445	-	238,445
Total liabilities	<u>15,039,716</u>	<u>237</u>	<u>15,039,953</u>
Net Assets			
Invested in capital assets, net of related debt	7,564,183	146,211	7,710,394
Restricted for:			
Capital projects	492,591	-	492,591
Other purposes	-	253,271	253,271
Unrestricted	2,674,680	-	2,674,680
Total net assets	<u>\$ 10,731,454</u>	<u>\$ 399,482</u>	<u>\$ 11,130,936</u>

The accompanying notes to financial statements
are an integral part of this statement.

**RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 10,843,929	\$ 14,361	\$ 1,441,907	\$ -	\$ (9,387,661)	\$ -	\$ (9,387,661)
Support services:							
Students	682,224	-	1,147	-	(681,077)	-	(681,077)
Instructional staff	1,519,373	-	372,276	-	(1,147,097)	-	(1,147,097)
District administration	822,625	-	-	-	(822,625)	-	(822,625)
School administration	970,560	-	-	-	(970,560)	-	(970,560)
Business and other support services	170,250	-	-	-	(170,250)	-	(170,250)
Operation and maintenance of plant	1,870,749	-	-	-	(1,870,749)	-	(1,870,749)
Student transportation	774,328	-	13,115	-	(761,213)	-	(761,213)
Food service operations	39,907	-	-	-	(39,907)	-	(39,907)
Community services	126,545	-	111,233	-	(15,312)	-	(15,312)
Debt service	633,458	-	-	893,072	259,614	-	259,614
Total governmental activities	18,453,948	14,361	1,939,678	893,072	(15,606,837)	-	(15,606,837)
Business-type activities:							
Food service	1,038,365	457,905	610,615	-	-	30,155	30,155
Total business-type activities	1,038,365	457,905	610,615	-	-	30,155	30,155
Total primary government	\$ 19,492,313	\$ 472,266	\$ 2,550,293	\$ 893,072	\$ (15,606,837)	\$ 30,155	\$ (15,576,682)
General revenues:							
Taxes:							
Property taxes, levied for general purposes		\$ 4,539,508	\$ -	\$ -	\$ 4,539,508	\$ -	\$ 4,539,508
Motor vehicle		533,969	-	-	533,969	-	533,969
Utilities		827,125	-	-	827,125	-	827,125
Intergovernmental revenues:							
State		10,789,035	-	-	10,789,035	-	10,789,035
Investment earnings		18,637	-	-	18,637	-	18,637
Loss on disposal of capital assets		(1,871)	-	-	(1,871)	-	(1,871)
Other local revenues		118,752	-	-	118,752	-	118,752
Total general revenues		16,825,155	-	-	16,825,155	-	16,825,155
Transfers		(1,743)	-	-	(1,743)	1,743	-
Change in net assets		1,216,575	-	-	1,216,575	31,898	1,248,473
Net assets, June 30, 2011		9,514,879	-	-	9,514,879	367,584	9,882,463
Net assets, June 30, 2012		\$ 10,731,454	\$ -	\$ 399,482	\$ 10,731,454	\$ 399,482	\$ 11,130,936

The accompanying notes to financial statements are an integral part of this statement.

RUSSELL INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 2,865,291	\$ -	\$ 733,391	\$ 1,638	\$ 3,600,320
Due from other funds	13,658	-	-	-	13,658
Receivables (net of allowances for uncollectibles):					
Taxes - current	198,167	-	-	-	198,167
Taxes - delinquent	13,771	-	-	-	13,771
Other	18,622	-	-	-	18,622
Intergovernmental - Federal	-	232,885	-	-	232,885
Total assets	<u>\$ 3,109,509</u>	<u>\$ 232,885</u>	<u>\$ 733,391</u>	<u>\$ 1,638</u>	<u>\$ 4,077,423</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 93,062	\$ 7,473	\$ 239,896	\$ -	\$ 340,431
Accrued payroll and employee benefits	105,864	-	-	-	105,864
Due to other funds	-	13,658	-	-	13,658
Deferred revenue	-	211,754	-	-	211,754
Total liabilities	<u>198,926</u>	<u>232,885</u>	<u>239,896</u>	<u>-</u>	<u>671,707</u>
Fund balances:					
Committed	104,873	-	-	-	104,873
Restricted	119,223	-	490,953	1,638	611,814
Assigned	-	-	2,542	-	2,542
Unassigned	2,686,487	-	-	-	2,686,487
Total fund balances	<u>2,910,583</u>	<u>-</u>	<u>493,495</u>	<u>1,638</u>	<u>3,405,716</u>
Total liabilities and fund balances	<u>\$ 3,109,509</u>	<u>\$ 232,885</u>	<u>\$ 733,391</u>	<u>\$ 1,638</u>	<u>\$ 4,077,423</u>

The accompanying notes to financial statements
are an integral part of this statement.

RUSSELL INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Fund balances---total governmental funds	\$ 3,405,716
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	21,707,405
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the governmental funds.	<u>(14,381,667)</u>
Net assets of governmental activities	<u>\$ 10,731,454</u>

The accompanying notes to financial statements
are an integral part of this statement.

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes -					
Property	\$ 4,146,396	\$ -	\$ -	\$ 393,112	\$ 4,539,508
Motor vehicles	533,969	-	-	-	533,969
Utilities	827,125	-	-	-	827,125
Tuition and fees	6,000	8,361	-	-	14,361
Interest income	18,633	-	4	-	18,637
Other local revenues	16,738	88,294	435	-	105,467
Intergovernmental - State	10,789,035	426,931	-	893,072	12,109,038
Intergovernmental - Indirect federal	-	1,374,867	-	-	1,374,867
Intergovernmental - Direct federal	-	49,586	-	-	49,586
Total revenues	<u>16,337,896</u>	<u>1,948,039</u>	<u>439</u>	<u>1,286,184</u>	<u>19,572,558</u>
Expenditures:					
Current:					
Instruction	8,964,656	1,495,568	-	-	10,460,224
Support services:					
Students	680,837	1,147	-	-	681,984
Instructional staff	1,147,097	372,276	-	-	1,519,373
District administration	803,507	-	-	-	803,507
School administration	965,573	-	-	-	965,573
Business and other support services	169,501	-	-	-	169,501
Operation and maintenance of plant	1,807,340	-	-	-	1,807,340
Student transportation	819,012	13,115	-	-	832,127
Food service operation	39,907	-	-	-	39,907
Community services	15,312	111,233	-	-	126,545
Facilities acquisition and construction	-	-	5,539,104	-	5,539,104
Debt service	53,275	-	-	1,250,935	1,304,210
Total expenditures	<u>15,466,017</u>	<u>1,993,339</u>	<u>5,539,104</u>	<u>1,250,935</u>	<u>24,249,395</u>
Excess (deficiency) of revenues over expenditures	<u>871,879</u>	<u>(45,300)</u>	<u>(5,538,665)</u>	<u>35,249</u>	<u>(4,676,837)</u>
Other financing sources (uses):					
Proceeds from sale of equipment	241	-	-	-	241
Insurance reimbursement	30,443	-	71,136	-	101,579
Capital lease proceeds	82,368	-	-	-	82,368
Bond proceeds	-	-	-	1,780,000	1,780,000
Payment to bond escrow agent	-	-	-	(1,780,000)	(1,780,000)
Transfers in	-	45,300	130,945	888,207	1,064,452
Transfers out	(142,701)	-	-	(923,494)	(1,066,195)
Total other financing sources and uses	<u>(29,649)</u>	<u>45,300</u>	<u>202,081</u>	<u>(35,287)</u>	<u>182,445</u>
Net change in fund balances	842,230	-	(5,336,584)	(38)	(4,494,392)
Fund balances, June 30, 2011	<u>2,068,353</u>	<u>-</u>	<u>5,830,079</u>	<u>1,676</u>	<u>7,900,108</u>
Fund balances, June 30, 2012	<u>\$ 2,910,583</u>	<u>\$ -</u>	<u>\$ 493,495</u>	<u>\$ 1,638</u>	<u>\$ 3,405,716</u>

The accompanying notes to financial statements
are an integral part of this statement.

RUSSELL INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds \$ (4,494,392)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	6,001,644	
Depreciation expense	<u>(850,478)</u>	
		5,151,166

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for accrued sick leave.

(26,471)

Governmental funds report proceeds from the sale of assets as revenues. However, in the statement of activities, gain or loss is recorded upon the sale of assets.

(2,112)

Bond and capital lease proceeds are recognized as revenues of current financial resources in the fund financial statements, but are increases in liabilities in the statement of net assets.

(1,862,368)

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.

2,450,752

Change in net assets of governmental activities \$ 1,216,575

The accompanying notes to financial statements
are an integral part of this statement.

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Food Service Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 230,060
Inventories	23,448
Total current assets	253,508
Noncurrent assets:	
Capital assets, net of accumulated depreciation	146,211
Total noncurrent assets	146,211
Total assets	\$ 399,719
Liabilities	
Current liabilities:	
Accounts payable	\$ 237
Total current liabilities	237
Total liabilities	237
Net Assets	
Invested in capital assets	146,211
Restricted	253,271
Total net assets	\$ 399,482

The accompanying notes to financial statements
 are an integral part of this statement.

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Food Service Fund</u>
Operating revenues:	
Lunchroom sales	\$ 457,400
Other revenue	505
Total operating revenues	<u>457,905</u>
Operating expenses:	
Salaries and wages	337,730
Employee benefits	136,224
Contract services	9,285
Materials and supplies	533,707
Depreciation	21,419
Total operating expenses	<u>1,038,365</u>
Operating loss	<u>(580,460)</u>
Nonoperating revenues (expenses) :	
Federal grants	464,680
Donated commodities	76,483
State grants	69,452
Total nonoperating revenue	<u>610,615</u>
Transfers in	<u>1,743</u>
Increase in net assets	31,898
Net assets, June 30, 2011	<u>367,584</u>
Net assets, June 30, 2012	<u><u>\$ 399,482</u></u>

The accompanying notes to financial statements
 are an integral part of this statement.

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2012

	<u>Food Service Fund</u>
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	\$ 457,400
Other operating revenues	505
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(471,319)
Payments to employees	(473,954)
Net cash used for operating activities	<u>(487,368)</u>
Cash flows from noncapital financing activities:	
Transfers in from other funds	1,743
Governmental grants	536,140
Net cash provided by noncapital financing activities	<u>537,883</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(580)</u>
Net cash used for capital and related financing activities	<u>(580)</u>
Net increase in cash and cash equivalents	49,935
Cash and cash equivalents, June 30, 2011	<u>180,125</u>
Cash and cash equivalents, June 30, 2012	<u><u>\$ 230,060</u></u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (580,460)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	21,419
Donated commodities	76,483
Change in assets and liabilities:	
Inventories	(4,109)
Accounts payable	<u>(701)</u>
Net cash used for operating activities	<u><u>\$ (487,368)</u></u>
Non-cash items:	
Donated commodities	\$ 76,483
On-behalf payments	58,681

The accompanying notes to financial statements
are an integral part of this statement.

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Scholarship Funds	Agency Funds	Child Care Fund
Assets			
Cash and cash equivalents	\$ 124,108	\$ 187,877	\$ 43,206
Accounts receivable	-	-	34
Total assets	124,108	\$ 187,877	\$ 43,240
Liabilities			
Accounts payable	\$ -	\$ -	\$ 181
Due to students	-	187,877	-
Total liabilities	-	187,877	181
Net assets held in trust	\$ 124,108	\$ -	\$ 43,059

The accompanying notes to financial statements
 are an integral part of this statement.

**RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Scholarship Funds	Child Care Fund
	<u> </u>	<u> </u>
Additions -		
Contributions	\$ 9,467	\$ -
Fees	-	54,333
State Grants	-	4,755
Interest Income	518	-
	<u>9,985</u>	<u>59,088</u>
Deductions -		
Benefits paid	15,386	-
Operational expenses	-	49,574
	<u>15,386</u>	<u>49,574</u>
Change in Net Assets	(5,401)	9,514
Net Assets June 30, 2011	<u>129,509</u>	<u>33,545</u>
Net Assets June 30, 2012	<u>\$ 124,108</u>	<u>\$ 43,059</u>

The accompanying notes to financial statements
are an integral part of this statement.

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes -				
Property	\$ 3,875,351	\$ 3,955,000	\$ 4,146,396	\$ 191,396
Motor vehicles	450,000	450,000	533,969	83,969
Utilities	750,000	750,000	827,125	77,125
Interest income	8,000	10,000	18,633	8,633
Tuition and fees	-	-	6,000	6,000
Other local revenues	-	-	16,738	16,738
Intergovernmental - State	8,232,679	8,220,130	8,182,793	(37,337)
Total revenues	<u>13,316,030</u>	<u>13,385,130</u>	<u>13,731,654</u>	<u>346,524</u>
Expenditures:				
Current:				
Instruction	7,064,049	6,848,356	6,875,227	(26,871)
Support services:				
Students	592,170	603,151	596,259	6,892
Instructional staff	1,053,679	1,113,064	1,041,747	71,317
District administration	926,721	879,166	771,015	108,151
School administration	831,381	950,564	861,480	89,084
Business and other support services	161,482	162,842	150,715	12,127
Operation and maintenance of plant	1,859,535	1,875,053	1,695,222	179,831
Student transportation	695,329	662,353	761,285	(98,932)
Food service operations	30,922	39,433	39,907	(474)
Community services	17,487	12,240	13,643	(1,403)
Contingency	1,700,000	2,204,986	-	2,204,986
Debt service	53,275	62,275	53,275	9,000
Total expenditures	<u>14,986,030</u>	<u>15,413,483</u>	<u>12,859,775</u>	<u>2,553,708</u>
Excess (deficiency) of revenues over expenditures	<u>(1,670,000)</u>	<u>(2,028,353)</u>	<u>871,879</u>	<u>2,900,232</u>
Other financing sources (uses):				
Proceeds from sale of equipment	-	-	241	241
Insurance reimbursement	-	-	30,443	30,443
Capital lease proceeds	-	-	82,368	82,368
Transfers in	-	-	-	-
Transfers out	(30,000)	(40,000)	(142,701)	(102,701)
Total other financing sources and uses	<u>(30,000)</u>	<u>(40,000)</u>	<u>(29,649)</u>	<u>10,351</u>
Net change in fund balances	(1,700,000)	(2,068,353)	842,230	2,910,583
Fund balances, June 30, 2011	<u>1,700,000</u>	<u>2,068,353</u>	<u>2,068,353</u>	<u>-</u>
Fund balances, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>2,910,583</u>	<u>\$ 2,910,583</u>
Adjustments to Generally Accepted Accounting Principles-				
Intergovernmental State Revenue			2,606,242	
On-behalf payments:				
Instruction			(2,089,429)	
Support Services:				
Students			(84,578)	
Instructional Staff			(105,350)	
District Administration			(32,492)	
School Administration			(104,093)	
Business and other support services			(18,786)	
Operation and maintenance of plant			(112,118)	
Student transportation			(57,727)	
Community Services			(1,669)	
Fund Balance, June 30, 2012 (GAAP basis)			<u>\$ 2,910,583</u>	

The accompanying notes to financial statements
are an integral part of this statement.

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues:				
Student Fees	\$ 7,500	\$ 5,000	\$ 8,361	\$ 3,361
Other local revenues	73,803	75,500	88,294	12,794
Intergovernmental - State	381,645	412,720	426,931	14,211
Intergovernmental - Indirect federal	889,063	1,335,788	1,374,867	39,079
Intergovernmental - Direct federal	-	-	49,586	49,586
Total revenues	<u>1,352,011</u>	<u>1,829,008</u>	<u>1,948,039</u>	<u>119,031</u>
Expenditures:				
Current:				
Instruction	944,549	1,437,796	1,495,568	(57,772)
Support services:				
Students	-	-	1,147	(1,147)
Instructional staff	314,253	306,205	372,276	(66,071)
Student transportation	10,904	10,904	13,115	(2,211)
Community services	112,305	114,103	111,233	2,870
Total expenditures	<u>1,382,011</u>	<u>1,869,008</u>	<u>1,993,339</u>	<u>(124,331)</u>
Excess (deficiency) of revenues over expenditures	(30,000)	(40,000)	(45,300)	(5,300)
Other financing sources (uses):				
Transfers in	30,000	40,000	45,300	5,300
Transfers out	-	-	-	-
Total other financing sources and uses	<u>30,000</u>	<u>40,000</u>	<u>45,300</u>	<u>5,300</u>
Net change in fund balances	-	-	-	-
Fund balances, June 30, 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to financial statements
are an integral part of this statement.

RUSSELL INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

(1) REPORTING ENTITY

The Russell Independent 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 Russell Independent School District (District). The District receives funding from local, state and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as 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 Board, for financial reporting purposes, includes all of the funds and account groups relevant to the operation of the Russell Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

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

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements.

Russell Independent School District Finance Corporation

On October 30, 1989, the Russell Independent School District Board of Education resolved to authorize the establishment of the Russell Independent School District Finance Corporation (a non-profit, 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 Board for financing the costs of school building facilities. The members of the Russell Independent School District Board of Education also comprise the Corporation's Board of Directors.

Copies of component unit reports may be obtained from the District's Finance Office at 409 Belfont Street, Russell, Kentucky 41169-1320.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

The accounting policies of the Russell Independent School District substantially comply with accounting principles generally accepted in the United States and the rules prescribed by the Kentucky Department of Education for local school districts.

Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements - provide information about the primary government (the District). The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions. 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, including internally dedicated resources and all taxes, are reported as general revenues, 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.

Fund financial statements - provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and 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 flow of 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 net total assets. 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.

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
1. 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.
 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the 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.
 3. The School Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction expenditures. This is a major fund of the District.
- (D) 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 costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Funds (Enterprise Fund)

The School 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). The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Types

The Scholarship Funds provide funding for students' higher education in accordance with the terms or conditions specified by the donors.

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 *Uniform Program of Accounting for School Activity Funds*.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government 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.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property 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. Revenue from grants, entitlements and donations is 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, revenues from nonexchange transactions must also be available before they can be recognized.

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.

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

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditure) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. The assessed value of property upon which the levy for the 2012 fiscal year was based was \$786,223,091.

The tax rates assessed for the year ended June 30, 2012 to finance general fund operations were \$.674 on real estate and \$.674 per \$100 valuation on tangible property.

Taxes are due on October 1 and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2012 were 93% of the tax levy for real and tangible personal property and 121% for motor vehicles.

Encumbrance Accounting

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, 2012. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements resulting from encumbrances.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of three months or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Fund, which records inventory using the accrual basis of accounting. Inventories are stated at the lower of cost or market, on the first-in, first-out basis.

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 government-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 government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	5-12 years
Other general equipment	10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans 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.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See Note (13) for these amounts, which were not known by the District at the time the budget was adopted.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are 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.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, 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, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions 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, all payments made within sixty days after year-end are considered to have been made with current available financial resources. 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

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint;
- Assigned fund balance - amounts the District intends to use for a specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

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, 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 School District or through external restrictions imposed by creditors, grantors or laws or 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 School District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating revenues. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. All other expenses are nonoperating.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(3) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

<u>Governmental Activities</u>	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2012</u>
Land	\$ 370,688	\$ 90,000	\$ -	\$ 460,688
Land improvements	1,875,178	40,700	-	1,915,878
Buildings and improvements	19,555,868	1,895,224	-	21,451,092
Technology equipment	1,879,468	179,340	(47,307)	2,011,501
General equipment	710,882	34,019	-	744,901
Vehicles	1,485,728	108,782	-	1,594,510
Construction in progress	2,178,705	5,539,104	(1,885,525)	5,832,284
Totals at historical cost	<u>28,056,517</u>	<u>7,887,169</u>	<u>(1,932,832)</u>	<u>34,010,854</u>
Less: accumulated depreciation -				
Land improvements	(1,220,366)	(53,896)	-	(1,274,262)
Buildings and improvements	(7,464,992)	(453,033)	-	(7,918,025)
Technology equipment	(1,259,250)	(238,626)	45,195	(1,452,681)
Vehicles	(1,252,542)	(54,252)	-	(1,306,794)
General equipment	(301,016)	(50,671)	-	(351,687)
Total accumulated depreciation	<u>(11,498,166)</u>	<u>(850,478)</u>	<u>45,195</u>	<u>(12,303,449)</u>
Governmental Activities Capital Assets-Net	<u>\$ 16,558,351</u>	<u>\$ 7,036,691</u>	<u>\$ (1,887,637)</u>	<u>\$ 21,707,405</u>
<u>Business-Type Activities</u>				
Food service land improvements	\$ 2,350	\$ -	\$ -	\$ 2,350
Food service equipment	537,963	-	-	537,963
Technology equipment	33,391	580	-	33,971
Totals at historical cost	<u>573,704</u>	<u>580</u>	<u>-</u>	<u>574,284</u>
Less: accumulated depreciation -				
Land improvements	(715)	(117)	-	(832)
Equipment	(389,143)	(16,830)	-	(405,973)
Technology equipment	(16,796)	(4,472)	-	(21,268)
Total accumulated depreciation	<u>(406,654)</u>	<u>(21,419)</u>	<u>-</u>	<u>(428,073)</u>
Business-Type Activities Capital Assets-Net	<u>\$ 167,050</u>	<u>\$ (20,839)</u>	<u>\$ -</u>	<u>\$ 146,211</u>

Depreciation expense is allocated to governmental functions as follows:

Instruction	\$ 570,593
Student support services	240
District administration	19,118
School administration	4,987
Plant operation and maintenance	203,808
Student transportation	50,983
Business support services	749
	<u>\$ 850,478</u>

(4) RETIREMENT PLANS

A. Kentucky Teachers Retirement System:

The District contributes to the Kentucky Teachers Retirement System ("KTRS"), a cost sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education.

The Kentucky Teachers Retirement System was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868 or from the KTRS web site at <http://ktrs.ky.gov>.

Contribution rates are established by KRS. Members are required to contribute 10.355% of their salaries to KTRS. Members hired after July 1, 2008, contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky contributes matching contributions at the rate of 13.105% before July 1, 2008 and 14.105% after July 1, 2008. The Federal program that pays for salaries pays 13.605% before July 1, 2008 and 14.105% after July 1, 2008 matching contributions.

The Russell Independent Schools payroll for employees covered under KTRS was \$9,023,514. For the year ended June 30, 2012, the Commonwealth of Kentucky contributed \$1,096,612 to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the years ending June 30, 2010, 2011 and 2012 were \$95,844, \$88,512 and \$137,478, respectively, which represents the required contributions for those employees covered by Federal programs for each year.

B. County Employee's Retirement System:

The District contributes to the County Employee's Retirement System ("CERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the 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, or by calling (502) 564-4646.

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to contribute 18.96% of the employee's total compensation. Plan members hired after June 30, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS members and the District are established and may be amended by the CERS Board of Trustees. The District's contributions to CERS for the year ending June 30, 2010, 2011 and 2012, were \$373,084, \$390,637 and \$426,427, respectively, equal to the required contributions for the year.

C. Medical Insurance Plan:

KRS 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance, and the General Assembly.

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

In order to fund the post-retirement healthcare benefit, two and one half (2.5%) percent of the gross annual payroll of members hired before July 1, 2008 is contributed. 1.25% is paid by member contributions, .75% from state appropriation and 0.5% from the employer. Members hired after July 1, 2008 contribute an additional .5% to the medical insurance fund. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

(5) ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the Board an amount equal to 30% of the value of accumulated sick leave. At June 30, 2012, this amount totaled \$238,445 for those employees with 5 or more years of experience and who have reached the age of 55. The District follows a policy of funding up to one-half of the total amount accrued as a reservation of the General Fund balance. The District has elected to reserve an amount of the General Fund balance in the current year for accumulated sick leave.

(6) COMMITMENTS AND 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 on 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.

The District at times is subject to certain legal proceedings arising from normal business activities. However, there were no legal contingencies at June 30, 2012 or for the year then ended.

(7) CASH AND CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the

contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At June 30, 2012, the carrying amounts of the District's deposits were \$4,185,571 and the bank balances were \$4,717,170. Of the total bank balances, \$291,568 was insured by the FDIC, and \$4,425,602 was secured by collateral held by the pledging banks in the District's name.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Special Revenue (Grant Funds), Bond and Interest Redemption Fund, School Construction Fund, School Food Service Funds, and School Activity Funds.

(8) DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make lease payments relating to bonds issued by the Russell Independent School District Finance Corporation aggregating \$19,175,000, and notes issued by the Russell Independent School District to the Kentucky Interlocal School Transportation Association ("KISTA") in the original amount of \$419,722.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2012	\$ 1,780,000	1.15% - 2.40%
2011	5,320,000	1.00% - 4.63%
2010	810,000	2.00% - 4.00%
2009	925,000	1.75% - 3.60%
2006	3,750,000	3.75% - 4.00%
2004	4,615,000	2.50% - 3.75%
2003	1,975,000	3.50% - 3.75%
Various (KISTA)	419,722	2.00% - 4.00%

The District, through the General Fund, including local building fund taxes, the SEEK Capital Outlay Fund, and the Facilities Support Program of Kentucky is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on the bonds and notes of school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds or notes issued for purchase and construction then outstanding.

A summary of activity in bond obligations and other debts is as follows:

<u>Description</u>	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at June 30, 2012</u>
General obligation bonds - \$19,175,000 originally issued with interest rates ranging from 1.00% to 4.63%	\$ 14,510,000	\$ 1,780,000	\$(2,405,000)	\$ 13,885,000
KISTA notes payable	221,606	82,368	(45,752)	258,222
Accumulated unpaid sick leave	211,974	26,471	-	238,445
	<u>\$ 14,943,580</u>	<u>\$ 1,888,839</u>	<u>\$(2,450,752)</u>	<u>\$ 14,381,667</u>

On March 7, 2012, the Russell Independent School District issued \$1,780,000 in Refunding Revenue Bonds with an average interest rate of 2.038% to advance refund \$1,645,000 of outstanding 2003 Revenue Bonds with an average interest rate of 3.818%. The net proceeds of \$1,732,920 (after payment of \$32,384 of issuance costs, \$17,800 of discount on bonds, plus \$3,104 in accrued interest) were used to provide \$307 to open the Bond and Redemption Fund for the 2003 Issue, and \$1,732,613

to refund the 2003 Bond Issue. As a result, \$1,645,000 of the 2003 Series Bonds are considered to be defeased.

The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The District advance refunded \$1,645,000 of the 2003 Series Bonds to reduce its total debt service payments over the next 11 years by approximately \$94,270 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of 5.177%, or \$81,751 on the 2003 Revenue Bonds.

In connection with the 2011, 2009 and 2006 bond issues, the Board entered into participation agreements with the Kentucky School Facilities Construction Commission, whereby the Commission has agreed to provide amounts on an annual basis (reflected in the following table) for a period of two years. The obligation of the Commission to make said payments shall automatically renew every two years, unless the Commission provides the Board notice of its intention not to participate within sixty days prior to the expiration of the two year period.

The bonds may be called prior to maturity at redemption premiums as specified in each issue. Assuming no issues are called prior to scheduled maturity and that the Kentucky School Facilities Construction Commission continues to renew its agreement, the minimum obligations at June 30, 2012 for debt services (principal and interest) are as follows:

Bonds					
Year	Kentucky School Facilities Construction Commission		Russell Independent School District		Total
	Principal	Interest	Principal	Interest	
2013	\$ 227,216	\$ 130,086	\$ 542,784	\$ 352,137	\$ 1,252,223
2014	233,194	124,108	556,806	333,951	1,248,059
2015	240,048	117,254	574,952	315,715	1,247,969
2016	247,437	109,865	592,563	296,225	1,246,090
2017	255,630	101,671	569,370	272,744	1,199,415
2018-22	1,067,627	380,480	3,112,373	1,124,483	5,684,963
2023-27	996,756	194,136	2,768,244	623,337	4,582,473
2028-32	385,339	44,998	1,514,661	165,176	2,110,174
	<u>\$ 3,653,247</u>	<u>\$ 1,202,598</u>	<u>\$ 10,231,753</u>	<u>\$ 3,483,768</u>	<u>\$ 18,571,366</u>

Notes			
Year	Principal	Interest	Total
2013	\$ 42,027	\$ 7,781	\$ 49,808
2014	43,426	6,472	49,898
2015	36,393	5,165	41,558
2016	36,302	4,040	40,342
2017	29,790	2,880	32,670
2018-21	70,284	4,626	74,910
	<u>\$ 258,222</u>	<u>\$ 30,964</u>	<u>\$ 289,186</u>

(9) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Board Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund 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 Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust 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 Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member 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. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) 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 potential loss.

(12) TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Matching	\$ 45,300
Operating	FSPK Fund	Debt Service	Debt Service	721,771
Operating	SEEK	Debt Service	Debt Service	166,436
Operating	SEEK	Construction Fund	Construction	35,287
Operating	General	Construction Fund	Construction	95,658
Operating	General	Food Service	Indirect Costs	1,743

(13) ON-BEHALF PAYMENTS

For fiscal year 2012, the Commonwealth of Kentucky contributed payments on behalf of the Russell Independent School District as follows:

<u>Plan / Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$ 1,096,612
Health Insurance Plan, Flexible Spending Plan, and Administrative Life Insurance Plan	1,513,075
Vocational Payments	59,991
	<u>\$ 2,669,678</u>

These amounts are included in the Government-wide statement of activities as State revenues and as expenses allocated to the different functions in the same proportion as full-time employees.

(14) FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 62, *Codification of Accounting and Financial Reporting Guidance*, that incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of GASB No. 62 are effective for fiscal year

2013 and thereafter. The District has not completed the process of the evaluation of GASB No. 62, but does not expect it to have an impact on its financial statements.

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, that provides financial reporting guidance for deferred outflows and inflows of resources. While these elements were introduced and defined by Concepts Statement No. 4, *Elements of Financial Statements*, as a consumption and acquisition of net assets by the government that is applicable to a future reporting period, respectively, these elements have not been included in previous reporting guidance. The requirements of GASB No. 63 are effective for fiscal year 2013 and thereafter. The District has not completed the process of evaluating GASB No. 63, but it is expected to change only the formatting and naming of its statement of position and components thereof, with no overall financial impact.

SUPPLEMENTAL INFORMATION

RUSSELL INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	SEEK Fund	FSPK Funds	Debt Service Funds	Total Non-Major Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ -	\$ 1,638	\$ -	\$ 1,638
Total assets	\$ -	\$ 1,638	\$ -	\$ 1,638
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
Fund Balances:				
Restricted	-	1,638	-	1,638
Total fund balance	-	1,638	-	1,638
Total liabilities and fund balances	\$ -	\$ 1,638	\$ -	\$ 1,638

RUSSELL INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	SEEK Fund	FSPK Fund	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES:				
From local sources -				
Property Taxes	\$ -	\$ 393,112	\$ -	\$ 393,112
Intergovernmental - State	201,723	328,621	362,728	893,072
Total revenues	<u>201,723</u>	<u>721,733</u>	<u>362,728</u>	<u>1,286,184</u>
EXPENDITURES:				
Debt service	-	-	1,250,935	1,250,935
Total expenditures	<u>-</u>	<u>-</u>	<u>1,250,935</u>	<u>1,250,935</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>201,723</u>	<u>721,733</u>	<u>(888,207)</u>	<u>35,249</u>
OTHER FINANCING SOURCES (USES):				
Bond proceeds	-	-	1,780,000	1,780,000
Payment to bond escrow agent	-	-	(1,780,000)	(1,780,000)
Operating transfers in	-	-	888,207	888,207
Operating transfers out	(201,723)	(721,771)	-	(923,494)
Total other financing sources (uses)	<u>(201,723)</u>	<u>(721,771)</u>	<u>888,207</u>	<u>(35,287)</u>
NET CHANGE IN FUND BALANCE	-	(38)	-	(38)
FUND BALANCE June 30, 2011	<u>-</u>	<u>1,676</u>	<u>-</u>	<u>1,676</u>
FUND BALANCE June 30, 2012	<u>\$ -</u>	<u>\$ 1,638</u>	<u>\$ -</u>	<u>\$ 1,638</u>

RUSSELL INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	2003	2004	2006	2009	2010	2011	2012	Totals
	Bond	Bond	Bond	Bond	Bond	Bond	Bond	Debt Service
	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund
REVENUES:								
Intergovernmental - State	\$ -	\$ -	\$ 136,752	\$ 109,175	\$ -	\$ 116,801	\$ -	\$ 362,728
Total revenues	-	-	136,752	109,175	-	116,801	-	362,728
EXPENDITURES:								
Debt service	67,872	546,963	213,317	109,175	34,475	249,079	30,054	1,250,935
Total expenditures	67,872	546,963	213,317	109,175	34,475	249,079	30,054	1,250,935
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(67,872)</u>	<u>(546,963)</u>	<u>(76,565)</u>	<u>-</u>	<u>(34,475)</u>	<u>(132,278)</u>	<u>(30,054)</u>	<u>(888,207)</u>
OTHER FINANCING SOURCES (USES):								
Bond proceeds	-	-	-	-	-	-	1,780,000	1,780,000
Payment to bond escrow agent	-	-	-	-	-	-	(1,780,000)	(1,780,000)
Operating transfers in	67,872	546,963	76,565	-	34,475	132,278	30,054	888,207
Total other financing sources (uses)	67,872	546,963	76,565	-	34,475	132,278	30,054	888,207
NET CHANGE IN FUND BALANCE	-	-	-	-	-	-	-	-
FUND BALANCE June 30, 2011	-	-	-	-	-	-	-	-
FUND BALANCE June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

RUSSELL INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 SCHOOL ACTIVITY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balance June 30, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Receivable	Accounts Payable	Deposits Held in Custody for Students June 30, 2012
Russell High School	\$ 66,300	\$ 359,051	\$ 327,204	\$ 98,147	\$ -	\$ -	\$ 98,147
Russell Middle School	41,684	175,995	177,157	40,522	-	-	40,522
Russell Primary School	42,734	77,829	85,331	35,232	-	-	35,232
Russell-McDowell Intermediate School	13,494	24,755	24,273	13,976	-	-	13,976
	<u>\$ 164,212</u>	<u>\$ 637,630</u>	<u>\$ 613,965</u>	<u>\$ 187,877</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 187,877</u>

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
RUSSELL HIGH SCHOOL ACTIVITY AND SCHOLARSHIP FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balances June 30, 2011	Receipts	Disbursements	Cash Balances June 30, 2012	Accounts Receivable (Accounts Payable)	Cash and Deposits Held in Custody For Students June 30, 2012
Activity Funds:						
Academic Team	\$ 1,342	\$ 420	\$ (140)	\$ 1,622	\$ -	\$ 1,622
AP Biology / AP Chemistry	334	-	-	334	-	334
Appalachian Trail	426	-	-	426	-	426
Art/ JR Grizzle	48	1,611	(1,631)	28	-	28
Arts & Humanities	-	-	-	-	-	-
Athletics	-	73,716	(73,716)	-	-	-
Band	120	150	(215)	55	-	55
Baseball	-	6,885	(6,852)	33	-	33
Basketball Preview	-	-	-	-	-	-
Beta Club	1,897	5,711	(6,166)	1,442	-	1,442
Bio Tech Grant	3,000	-	-	3,000	-	3,000
Boys Basketball	-	22,484	(22,484)	-	-	-
Boys Basketball Camp	2,231	9,726	(10,923)	1,034	-	1,034
Boys Golf	-	4,304	(4,304)	-	-	-
Boys Soccer	-	6,914	(6,914)	-	-	-
Boys Tennis	-	3,339	(3,339)	-	-	-
Boys Tennis Camp	120	1,237	(1,042)	315	-	315
Boys Track	-	2,284	(2,284)	-	-	-
Boys/Girls Basketball Camp	-	5,885	(5,885)	-	-	-
Boys/Girls Indoor	-	400	(400)	-	-	-
Boys/Girls State	100	-	-	100	-	100
Boys/Girls Swimming	-	2,440	(2,440)	-	-	-
Boys/Girls Track Camp	355	2,497	(2,049)	803	-	803
Choir	3,963	1,513	(2,019)	3,457	-	3,457
Cross County	-	2,812	(2,812)	-	-	-
District Basketball	-	-	-	-	-	-
Ed Enhancement	182	40	(216)	6	-	6
Endowment Grant	-	-	-	-	-	-
English Field Trip	30	584	(547)	67	-	67
Faculty Lounge	5	546	(369)	182	-	182
FCA/CADS	105	500	(19)	586	-	586
FHA/FCCLA	584	1,079	(1,124)	539	-	539
Football	-	53,465	(53,400)	65	-	65
Foreign Language	268	-	(251)	17	-	17
French Club	-	3,760	(3,708)	52	-	52
General Fund	49	18,209	(17,898)	360	-	360
Girls Basketball	-	9,410	(9,410)	-	-	-
Girls Basketball Camp	3,297	2,845	(4,335)	1,807	-	1,807
Girls Golf	-	3,339	(3,339)	-	-	-
Girls Soccer	-	3,956	(3,956)	-	-	-
Girls Tennis	-	1,755	(1,755)	-	-	-
Girls Tennis Camp	1,121	-	(248)	873	-	873
Girls Track	-	2,285	(2,285)	-	-	-
Home Ec. / McConda	467	-	-	467	-	467
Home Ec. / Salyer	4,100	2,192	(2,097)	4,195	-	4,195
International Club	42	-	-	42	-	42
Journalism	-	450	(188)	262	-	262
Key Club	2,564	525	(656)	2,433	-	2,433
Latin Club	4,604	2,975	(3,437)	4,142	-	4,142
Lexington A-List Grant	101	-	(98)	3	-	3
Library	83	-	-	83	-	83
Literary Society	-	351	(210)	141	-	141

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
RUSSELL HIGH SCHOOL ACTIVITY AND SCHOLARSHIP FUNDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balances June 30, 2011	Receipts	Disbursements	Cash Balances June 30, 2012	Accounts Receivable (Accounts Payable)	Cash and Deposits Held in Custody For Students June 30, 2012
Math	101	-	-	101	-	101
Mock Trial	25	685	(710)	-	-	-
National Honor Society	899	-	(85)	814	-	814
PE/Athletic Grant	8	-	-	8	-	8
Pep Club	358	503	(861)	-	-	-
Peer to Peer	-	304	(143)	161	-	161
Prom	-	7,493	(6,526)	967	-	967
Revilonian	16,063	10,680	(14,854)	11,889	-	11,889
Science - Aldrich	837	770	(441)	1,166	-	1,166
Science - Barnett	4,763	1,597	(336)	6,024	-	6,024
Science - House	1,022	815	(1,126)	711	-	711
Science - J Barnett	4	-	-	4	-	4
Science - Tackett	1,537	635	(858)	1,314	-	1,314
Science - Hall	1,029	770	-	1,799	-	1,799
Science Olympiad	1,285	6,599	(3,263)	4,621	-	4,621
Science/GE Star Award	500	-	-	500	-	500
Senior Class	85	30	-	115	-	115
Senior Salute	2,049	460	-	2,509	-	2,509
Service Learning Grant	44	500	(392)	152	-	152
Social Studies Field	141	348	(446)	43	-	43
Softball	-	3,937	(3,937)	-	-	-
Spanish Fees	144	935	(1,079)	-	-	-
Spanish Honor Society	-	75	-	75	-	75
Special Ed	-	276	(273)	3	-	3
Speech and Drama	-	1,135	(618)	517	-	517
Sports Medicine Training	100	-	-	100	-	100
Sports Medicine	-	2,584	(2,584)	-	-	-
Starbucks Volunteer	-	1,000	-	1,000	-	1,000
Student Government	1,436	4,291	(4,503)	1,224	-	1,224
Testing	2,303	16,460	(14,346)	4,417	-	4,417
Trim Fees	29	29,182	(269)	28,942	-	28,942
Volleyball	-	4,393	(4,393)	-	-	-
	<u>\$ 66,300</u>	<u>359,051</u>	<u>(327,204)</u>	<u>98,147</u>	<u>\$ -</u>	<u>\$ 98,147</u>
Scholarship Funds:						
Barbara Green Scholarship	4,511	-	(464)	4,047	-	-
Bennett Lake Memorial Scholarship	24,161	1,105	-	25,266	-	-
Beta Club Scholarship	2,491	-	(1,125)	1,366	-	-
Cameron Weis	11,534	59	(500)	11,093	-	-
Class of 1993	500	-	-	500	-	-
Clear Channel	3,000	3,000	(2,000)	4,000	-	-
Doris Webb Scholarship	625	-	-	625	-	-
Earl Mitterdorf Scholarship	47,024	168	(2,000)	45,192	-	-
Eliza McKnight Fund	1,975	122	(500)	1,597	-	-
Hytt Ward Scholarship	188	1	-	189	-	-
Ledford Scholarship	400	400	(800)	-	-	-
Marv Meredith	9,008	66	-	9,074	-	-
Mark & Teresa Stone	6,300	500	(1,000)	5,800	-	-
Pepsi-Cola Scholarship	1,500	-	-	1,500	-	-
Roger Vanover Memorial	382	-	(382)	-	-	-
Russell Independent Scholarship	5,099	4,514	(3,750)	5,863	-	-
Russell Scholarship	31	-	-	31	-	-
Travis Roark Memorial Scholarship	1,335	50	-	1,385	-	-
Una Fern Menshouse Scholarship	9,445	-	(2,865)	6,580	-	-
	<u>129,509</u>	<u>9,985</u>	<u>(15,386)</u>	<u>124,108</u>	<u>-</u>	<u>-</u>
	<u>\$ 195,809</u>	<u>\$ 369,036</u>	<u>\$ (342,590)</u>	<u>\$ 222,255</u>	<u>\$ -</u>	<u>\$ -</u>

RUSSELL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Agriculture</u>				
Passed through State Department of Education:				
Child Nutrition cluster:				
Cash Assistance				
National School Lunch Program	10.555	7750002-11	\$ -	\$ 70,403
National School Lunch Program	10.555	7750002-12	-	279,396
National School Breakfast Program	10.553	7760005-11	-	23,629
National School Breakfast Program	10.553	7760005-12	-	91,252 *
				<u>464,680</u>
Passed through State Department of Agriculture:				
Non-Cash Assistance (Food Distribution)				
National School Lunch Program	10.555	057502-02	-	76,483
				<u>76,483</u>
Total U.S. Department of Agriculture				<u>541,163</u>
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title 1 - Grants to Local Educational Agencies	84.010	3100002-10	363,700	116,358
Title 1 - Grants to Local Educational Agencies	84.010	3100002-11	350,732	289,651
ARRA - Title 1	84.389	4100002-09	177,960	2,084
				<u>408,093</u>
Special Education Cluster (IDEA):				
Special Education - Grants to States	84.027	3810002-10	407,617	28,923
Special Education - Grants to States	84.027	3810002-11	402,253	364,463
Special Education - Preschool Grants	84.173	3800002-11	17,852	17,852
ARRA - Preschool Grants	84.392	4800002-09	31,302	9,329
				<u>420,567 *</u>
Education Jobs Fund ARRA	84.410	EJOB00-10	481,661	481,661
				<u>481,661 *</u>
Improving Teacher Quality State Grants	84.367	3230002-11	85,246	45,769
				<u>45,769</u>
Vocational Education - Basic Grants to States	84.048	4621132-09	66	66
Vocational Education - Basic Grants to States	84.048	4621132-10	242	242
Vocational Education - Basic Grants to States	84.048	4621132-11	4,700	4,700
				<u>5,008</u>
Comprehensive School Health Program	93.938	2000001-11	150	150
				<u>150</u>
Passed through University of Kentucky:				
Reading Recovery: Scaling Up What Works	84.411A	4912	12,000	8,772
				<u>8,772</u>
Total U.S. Department of Education				<u>1,370,020</u>

**RUSSELL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2012**

	Federal CFDA Number	Pass-Through Grantors Number	Program or Award Amount	Expenditures
<u>U.S. Department of Defense</u>				
Direct Programs -				
Basic, Applied, and Advanced Research in Science and Engineering	12.630	5,042	49,586	<u>49,586</u>
Total U.S. Department of Defense				<u>49,586</u>
<u>Corporation for National and Community Service</u>				
Passed through State Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	1000001-10	5,500	<u>4,847</u>
Total Corporation for National and Community Services				<u>4,847</u>
Total Expenditures of Federal Awards				<u>\$ 1,965,616</u>

*Denotes major program.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Russell Independent School District programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Russell Independent School District, it is not and does not present the financial position, changes in net assets or cash flows of the District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported on the schedule at the fair market value of the commodities received and disbursed. At June 30, 2012, the District had total inventory of \$ 23,448.



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

- 1200 CORPORATE COURT • P. O. BOX 990 • ASHLAND, KENTUCKY 41105-0990 •
- Phone (606) 329-1811 • Fax (606) 329-8756 • E-mail contact@kelleygalloway.com • Web site www.kelleygalloway.com •

Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North America Network

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Russell Independent School District
Russell, Kentucky

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 Russell Independent School District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements* and *Appendix II to the Independent Auditor's Contract - State Audit Requirements* and *Appendix III to the Independent Auditor's Contract - Electronic Submission*.

Internal Control Over Financial Reporting

Management of Russell Independent School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditors' Contract-State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract - Electronic Submission*.

This report is intended solely for the information and use of the Board, management, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified users.

Kelly, Galloway & Company, PC

October 10, 2012



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

- 1200 CORPORATE COURT • P. O. BOX 990 • ASHLAND, KENTUCKY 41105-0990 •
- Phone (606) 329-1811 • Fax (606) 329-8756 • E-mail contact@kelleygalloway.com • Web site www.kelleygalloway.com •

Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North America Network

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Russell Independent School District
Russell, Kentucky

Compliance

We have audited the Russell Independent School District's (the "District") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the Audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements*, *Appendix II to the Independent Auditor's Contract - State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract - Electronic Submission*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified users.

Kelley, Holloman & Company, PC

October 10, 2012

**RUSSELL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

(A) SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued: Unqualified

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes x none reported

Noncompliance material to the financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified that are not considered to be material weakness(es). _____ yes x none reported

Type of audit auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ yes x no

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2012:

- Child Nutrition Cluster (10.553 and 10.555)
- IDEA, Special Education Cluster (84.027, 84.173, and 84.392)
- Education Jobs Fund (84.410)

Dollar threshold to distinguish between Type A and Type B Programs: \$ 300,000

The District qualified as a low risk auditee x yes _____ no

(B) FINDINGS RELATED TO FINANCIAL STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS

None noted in the current year.

(C) FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There were no findings in the current year.

**RUSSELL INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no prior year audit findings.

**RUSSELL INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2012**

There were no findings that require a corrective action plan in the current year.