

RUSSELL COUNTY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2013

RUSSELL COUNTY SCHOOL DISTRICT

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CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

MEMBER
AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Russell County School District
Jamestown, Kentucky

TELEPHONE 270/769-6371

FAX 270/765-7934

www.scacpa.com

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

As discussed in Note 1 to the financial statements, the District adopted GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AJCPA Pronouncements*, GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 53* during the fiscal year.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 37 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Russell County School District's basic financial statements. The combining financial statements, school schedules and schedule of expenditures of federal awards 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 basic financial statements.

The combining financial statements, school schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with accounting standards generally accepted in the United States of America. In our opinion, the combining financial statements, school schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 1, 2013, on our consideration of Russell County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Russell County School District's internal control over financial reporting and compliance.



Certified Public Accountants
Elizabethtown, Kentucky
November 1, 2013

REQUIRED SUPPLEMENTARY INFORMATION

**RUSSELL COUNTY SCHOOL DISTRICT – JAMESTOWN, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

The discussion and analysis of Russell County School District’s financial performance provides an overall review of the School District’s financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to review the School District’s financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the School District’s financial performance.

FINANCIAL HIGHLIGHTS

- The ending general fund cash balance was \$1.7 million. The general fund had a beginning cash balance of \$27 thousand.
- The General Fund had \$22.5 million in revenue, which primarily consisted of the state program (SEEK), state on-behalf payments and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there were \$21.1 million in General Fund expenditures.
- The General Fund fund balance increased by \$1.7 million and the General Fund ended the year with a fund balance of \$1.8 million. The District received \$792 thousand in impact aid funds.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District’s bond debt decreased by \$5.9 million during the current fiscal year. This included a partial advance refunding of the 2005 bonds in the amount of \$4.4 million.

USING THIS ANNUAL REPORT

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 financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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 position presents information on all of the District’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will 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, student transportation and operation of non-instructional services. Capital assets and related debt are also supported by taxes and intergovernmental revenues.

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

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

The basic governmental fund financial statements can be found on pages 12 - 19 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 20 - 36 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$19.0 million as of June 30, 2013.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, technology and equipment), less any related debt used to acquire those assets that is 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.

**(Table 1)
Net Position**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and Other Assets	\$ 2,383,772	\$ 1,566,664	\$ 197,459	\$ 203,769	\$ 2,581,231	\$ 1,770,433
Capital Assets	42,389,584	43,533,524	953,166	1,035,931	43,342,750	44,569,455
Total Assets	<u>44,773,356</u>	<u>45,100,188</u>	<u>1,150,625</u>	<u>1,239,700</u>	<u>45,923,981</u>	<u>46,339,888</u>
Long-term Debt	24,442,959	27,072,402	-	-	24,442,959	27,072,402
Other Liabilities	2,465,727	2,471,673	122	92	2,465,849	2,471,765
Total Liabilities	<u>26,908,686</u>	<u>29,544,075</u>	<u>122</u>	<u>92</u>	<u>26,908,808</u>	<u>29,544,167</u>
Net Position						
Net investment in capital assets	17,197,600	16,625,190	953,166	1,035,931	18,150,766	17,661,121
Restricted	75,257	123,504	-	-	75,257	123,504
Unrestricted	591,813	(1,192,581)	197,337	203,677	789,150	(988,904)
Total Net Position	<u>\$ 17,864,670</u>	<u>\$ 15,556,113</u>	<u>\$ 1,150,503</u>	<u>\$ 1,239,608</u>	<u>\$ 19,015,173</u>	<u>\$ 16,795,721</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The District paid \$5.9 million toward debt payments in 2013 and partially advance refunded the 2005 bonds.

Comments on Budget Comparisons

- The District's total governmental revenues for the fiscal year ended June 30, 2013, excluding other financing sources, were \$29.5 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$5.8 million more than budget or approximately 35%. This includes on-behalf payments of \$4.4 million. Tax revenue was \$275 thousand more than budgeted. The District received \$792 thousand in impact aid funds.
- General fund budget expenditures to actual varied significantly in Instruction. The difference was because the District did not budget on-behalf payments.

The following Table 2 presents a summary of changes in net assets for the fiscal years ended June 30, 2013 and 2012.

(Table 2)
Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
REVENUES:						
Program revenues:						
Charges for services	\$ 25,779	\$ 57,728	\$ 463,490	\$ 509,486	\$ 489,269	\$ 567,214
Operating grants and contributions	10,501,873	9,837,523	1,676,665	1,550,796	12,178,538	11,388,319
Capital grants and contributions	331,252	226,194	-	-	331,252	226,194
General revenues:						
Property taxes	5,007,378	4,672,547	-	-	5,007,378	4,672,547
Motor vehicle taxes	590,656	577,239	-	-	590,656	577,239
Utility taxes	1,240,219	1,135,292	-	-	1,240,219	1,135,292
Other taxes		8,630	-	-	-	8,630
Investment earnings	27,811	25,257	2,006	3,720	29,817	28,977
Gain on disposal of capital assets	11,299	880			11,299	880
State and formula grants	11,503,904	11,413,049	-	-	11,503,904	11,413,049
Miscellaneous	243,051	182,669	-	-	243,051	182,669
Total revenues	<u>29,483,222</u>	<u>28,137,008</u>	<u>2,142,161</u>	<u>2,064,002</u>	<u>31,625,383</u>	<u>30,201,010</u>
EXPENSES						
Program Activities						
Instruction	15,827,704	16,462,233	-	-	15,827,704	16,462,233
Student support	1,870,691	1,921,515	-	-	1,870,691	1,921,515
Instructional staff support	1,198,735	1,267,323	-	-	1,198,735	1,267,323
District administrative support	601,653	666,201	-	-	601,653	666,201
School administrative support	1,435,627	1,470,939	-	-	1,435,627	1,470,939
Business support	782,116	846,807	-	-	782,116	846,807
Plant operation and maintenance	1,997,194	2,113,806	-	-	1,997,194	2,113,806
Student transportation	2,022,388	1,914,300	-	-	2,022,388	1,914,300
Community service activities	340,161	309,528	-	-	340,161	309,528
Interest costs	1,094,696	1,146,648	-	-	1,094,696	1,146,648
Business-type Activities:						
Food service	-	-	2,231,266	2,119,122	2,231,266	2,119,122
Total expenses	<u>27,170,965</u>	<u>28,119,300</u>	<u>2,231,266</u>	<u>2,119,122</u>	<u>29,402,231</u>	<u>30,238,422</u>
Extraordinary item - KSBIT	(3,700)	-	-	-	(3,700)	-
Transfers		38,541		(38,541)	-	-
Increase (decrease) in net position	<u>\$ 2,308,557</u>	<u>\$ 56,249</u>	<u>\$ (89,105)</u>	<u>\$ (93,661)</u>	<u>\$ 2,219,452</u>	<u>\$ (37,412)</u>

Governmental Activities

Instruction comprises 58% of governmental program expenses. Support services expenses make up 38% of government expenses. The remaining expense for interest and community service activities accounts for the remaining 4% of total government expense.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

(Table 3)
Governmental Activities Total
Cost of Services

	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Instruction	\$ 15,827,704	\$ 16,462,233	\$ 7,850,800	\$ 9,317,137
Support services	9,908,404	10,200,891	7,689,921	7,750,095
Community services	340,161	309,528	7,896	10,169
Interest costs	<u>1,094,696</u>	<u>1,146,648</u>	<u>763,444</u>	<u>920,454</u>
Total expenses	<u><u>\$ 27,170,965</u></u>	<u><u>\$ 28,119,300</u></u>	<u><u>\$ 16,312,061</u></u>	<u><u>\$ 17,997,855</u></u>

Net Cost of Services

Business-Type Activities

The business-type activities are the food service operation. This program had total revenues of \$2,142,161 and expenses of \$2,231,266 for fiscal year 2013. Of the revenues, \$463,490 was charges for services, \$1,676,665 was from State and Federal grants and \$2,006 was investment earnings. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will increase the charges for this activity.

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$37.3 million and expenditures and other financing uses of \$35.6 million.

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

For the General Fund revenues were budgeted at \$16.7 million with actual amounts of \$22.5 million. Budgeted expenditures of \$16.9 million compare with actual expenditures of \$21.1 million. The most significant fluctuation is for on-behalf payments of \$4.4 million.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013 the School District had \$43.3 million invested in land, buildings, vehicles, and equipment and \$42.4 million in governmental activities. Table 4 shows fiscal year 2013 and 2012 balances.

(Table 4)
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Land and land improvements	\$ 1,195,839	\$ 1,229,925	\$ -	\$ -	\$ 1,195,839	\$ 1,229,925
Buildings and improvements	39,768,157	40,818,552	659,845	680,174	40,428,002	41,498,726
Technology	164,772	213,035	14,760	20,353	179,532	233,388
Vehicles	831,694	1,064,951	-	-	831,694	1,064,951
General equipment	179,648	207,061	278,561	335,404	458,209	542,465
Total	42,140,110	43,533,524	953,166	1,035,931	43,093,276	44,569,455
Construction in progress	249,474	-	-	-	249,474	-
Total	<u>\$ 42,389,584</u>	<u>\$ 43,533,524</u>	<u>\$ 953,166</u>	<u>\$ 1,035,931</u>	<u>\$ 43,342,750</u>	<u>\$ 44,569,455</u>

Table 5 shows changes in capital assets for the years ended June 30, 2013 and 2012.

(Table 5)
Change in Capital Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Beginning balance	\$ 43,533,524	\$ 44,624,241	\$ 1,035,931	\$ 1,119,260	\$ 44,569,455	\$ 45,743,501
Additions	287,543	391,559	-	4,118	287,543	395,677
Retirements	(661)	(2,540)	-	-	(661)	(2,540)
Depreciation	(1,430,822)	(1,479,736)	(82,765)	(87,447)	(1,513,587)	(1,567,183)
Ending balance	<u>\$ 42,389,584</u>	<u>\$ 43,533,524</u>	<u>\$ 953,166</u>	<u>\$ 1,035,931</u>	<u>\$ 43,342,750</u>	<u>\$ 44,569,455</u>

Debt

At June 30, 2012, the School District had \$25.2 million in bonds outstanding, of this amount \$1.3 million is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$1.6 million is due within one year of June 30, 2013.

District Challenges for the Future

As the District budgets in the future, the District is required to assume additional costs due to various unfunded state mandates. These unfunded mandates include increases in the shared responsibility for retirement plan contributions, as well as, instructional initiatives related to college and career readiness goals.

During the past few years, the District has seen significant reductions in state funding while state mandates have been increasing. For example, our District has not received Textbook money as part of the Flex Focus Funds since the 2008-09 school year, but implementation of the common core standards has created a significant need for new textbooks and other instructional materials. This has forced our District to use locally generated funds to purchase the textbooks and materials. While the materials purchased have helped our students, we still have a great need for new textbooks and instructional materials.

Our student average daily attendance or ADA on which the majority of our state funding is based has been relatively steady for the past few years. While we have seen some growth, this growth has not generated any significant increases in funding. We have seen growth in the count of at-risk student population which has helped us to maintain our state SEEK funding level. This increase has helped us to off-set the recent cuts to the base per pupil amount of the SEEK funding. Our ability to maintain this funding level in the future is uncertain, if reductions to the SEEK base per pupil continue in the future.

Our District also faces financial uncertainty with regard to the sequestration cuts to federally funded programs. While these cuts have not yet impacted our federal programs such as Title I and IDEA-B significantly, the potential future cuts could be devastating to our federal programs if this funding is not restored.

With careful planning and monitoring of our finances, Russell County Schools' goal is to continue to provide a quality education to our students and secure a stable financial future for our district.

Future Budgetary Implications

In Kentucky the fiscal year for public schools runs from July 1 to June 30. Some grant programs such as federal programs operate on a different fiscal calendar, but are reflected in the overall District budget. By law, the District budget must contain a minimum 2% budgeted contingency. The District budget established for 2013-14 does contain a 2% contingency.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any question about this report or need additional information, contact Marla Carnes, Finance Director, 404 S. Main St., P.O. Box 440, Jamestown, Kentucky 42629.

BASIC FINANCIAL STATEMENTS

RUSSELL COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

Assets	Governmental Activities	Business- Type Activities	Total
<u>Current Assets</u>			
Cash and cash equivalents	\$ 1,329,159	\$ 88,509	\$ 1,417,668
Inventory		26,566	26,566
Receivables:			
Taxes-current	129,687		129,687
Taxes-delinquent	5,318		5,318
Other receivables	48,808		48,808
Intergovernmental-State	79,780		79,780
Intergovernmental-Indirect Federal	630,601		630,601
Intergovernmental-Direct Federal	4,594	82,384	86,978
Total Current Assets	2,227,947	197,459	2,425,406
<u>Noncurrent Assets</u>			
Deferred charges	155,825		155,825
Capital assets, net of accumulated depreciation	42,389,584	953,166	43,342,750
Total Noncurrent Assets	42,545,409	953,166	43,498,575
Total Assets	44,773,356	1,150,625	45,923,981
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	69,551	122	69,673
Unearned revenue	228,120		228,120
Bond obligations	1,570,000		1,570,000
Capital lease obligations	260,424		260,424
Compensated absences	62,086		62,086
Interest payable	275,546		275,546
Total Current Liabilities	2,465,727	122	2,465,849
<u>Noncurrent Liabilities</u>			
Bond obligations	22,604,657		22,604,657
Deferred gain on QZAB	120,938		120,938
Capital lease obligations	912,728		912,728
Compensated absences	800,936		800,936
KSBIT	3,700		3,700
Total Noncurrent Liabilities	24,442,959	-	24,442,959
Total Liabilities	26,908,686	122	26,908,808
<u>Net Position</u>			
Net investment in capital assets	17,197,600	953,166	18,150,766
Restricted	75,257		75,257
Unrestricted	591,813	197,337	789,150
Total Net Position	\$ 17,864,670	\$ 1,150,503	\$ 19,015,173

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

FUND FINANCIAL STATEMENTS

RUSSELL COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2013

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 1,671,779	\$ -	\$ 103,715	\$ 1,775,494
Receivables:				
Taxes - current	129,687			129,687
Taxes - delinquent	5,318			5,318
Other receivables	48,654	154		48,808
Intergovernmental - State		79,780		79,780
Intergovernmental - Indirect Federal		630,601		630,601
Intergovernmental - Direct Federal		4,594		4,594
Total Assets	<u>\$ 1,855,438</u>	<u>\$ 715,129</u>	<u>\$ 103,715</u>	<u>\$ 2,674,282</u>
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	\$ 419	\$ -	\$ 69,132	\$ 69,551
Cash overdraft		446,335		446,335
Unearned revenue		228,120		228,120
Total Liabilities	419	674,455	69,132	744,006
Fund Balances				
Restricted		40,674	34,583	75,257
Assigned	78,329			78,329
Unassigned	1,776,690			1,776,690
Total Fund Balances	<u>1,855,019</u>	<u>40,674</u>	<u>34,583</u>	<u>1,930,276</u>
Total Liabilities and Fund Balances	<u>\$ 1,855,438</u>	<u>\$ 715,129</u>	<u>\$ 103,715</u>	<u>\$ 2,674,282</u>

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

RUSSELL COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION**

June 30, 2013

Total fund balance per fund financial statements	\$ 1,930,276
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	42,389,584
Debt issuance charges are reported as expenditures in the governmental funds when first incurred; however, they are included as deferred charges in the statement of net position.	155,825
Certain liabilities are not reported in this fund financial statement because because they are not due and payable, but they are presented in the statement of net position:	
Bonds payable (net of discounts/premiums and deferred amounts on refundings)	(24,174,657)
Deferred gain on QZAB	(120,938)
Capital lease obligations	(1,173,152)
Interest payable	(275,546)
Compensated absences	(863,022)
KSBIT	(3,700)
Net position for governmental activities	<u>\$ 17,864,670</u>

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

RUSSELL COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

Year Ended June 30, 2013

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes:				
Property	\$ 3,383,250	\$ -	\$ 1,624,128	\$ 5,007,378
Motor vehicle	590,656			590,656
Utilities	1,240,219			1,240,219
Earnings on investments	26,629		1,182	27,811
Other local revenues	268,830	30,980		299,810
Intergovernmental - State	16,067,598	853,403	1,448,690	18,369,691
Intergovernmental - Indirect Federal	117,086	2,956,166		3,073,252
Intergovernmental - Direct Federal	791,965	71,139		863,104
Total Revenues	22,486,233	3,911,688	3,074,000	29,471,921
Expenditures:				
Instruction	11,425,197	3,247,944		14,673,141
Support services:				
Student	1,842,739	27,615		1,870,354
Instruction staff	913,930	284,347		1,198,277
District administrative	755,274			755,274
School administrative	1,435,174			1,435,174
Business	735,240	46,876		782,116
Plant operation and maintenance	1,975,298			1,975,298
Student transportation	1,816,549	16		1,816,565
Community service activities	7,350	332,265		339,615
Other non-instruction	225,379			225,379
Facilities acquisition and construction			249,393	249,393
Bond issuance costs			48,700	48,700
Debt service:				
Principal			1,568,633	1,568,633
Interest			923,174	923,174
Total Expenditures	21,132,130	3,939,063	2,789,900	27,861,093
Excess (Deficit) of Revenues over Expenditures	1,354,103	(27,375)	284,100	1,610,828
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	11,960			11,960
Bond proceeds from refunding revenue bonds			4,840,000	4,840,000
Bond premium			48,468	48,468
Payment to refunded bond escrow agent			(4,835,935)	(4,835,935)
Transfers in	556,949	2,894	2,349,154	2,908,997
Transfers out	(195,495)		(2,713,502)	(2,908,997)
Total Other Financing Sources (Uses)	373,414	2,894	(311,815)	64,493
Excess (Deficit) of Revenue and Other Financing Sources over Expenditures and Other Financing Uses	1,727,517	(24,481)	(27,715)	1,675,321
Fund Balance, July 1, 2012	127,502	65,155	62,298	254,955
Fund Balance, June 30, 2013	\$ 1,855,019	\$ 40,674	\$ 34,583	\$ 1,930,276

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

RUSSELL COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Net change in total fund balances per fund financial statements	\$ 1,675,321
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.	(1,143,279)
The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net position.	(3,833)
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 position.	1,766,764
In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.	(661)
Estimated claims that are not mature are not reported in this fund financial statement, but those that are probable and reasonably estimable This item is recorded as extraordinary item in the statement of activities as it is unusual in nature and infrequent in occurrence.	(3,700)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>17,945</u>
Change in net position of governmental activities	<u>\$ 2,308,557</u>

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

RUSSELL COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2013

	<u>Food Service Fund</u>
Assets	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 88,510
Intergovernmental - Indirect Federal	82,384
Inventory	<u>26,565</u>
Total Current Assets	197,459
<u>Noncurrent Assets</u>	
Capital assets, net of accumulated depreciation	<u>953,166</u>
Total Noncurrent Assets	<u>953,166</u>
Total Assets	<u>1,150,625</u>
Liabilities	
<u>Current Liabilities</u>	
Accounts payable	<u>122</u>
Total Current Liabilities	<u>122</u>
<u>Net Position</u>	
Net investment in capital assets	953,166
Unrestricted	<u>197,337</u>
Total Net Position	<u>\$ 1,150,503</u>

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

RUSSELL COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

Year Ended June 30, 2013

	Food Service Fund
Operating Revenues:	
Lunchroom sales	\$ 437,943
Other operating revenues	25,547
Total Operating Revenues	<u>463,490</u>
Operating Expenses:	
Salaries and wages	1,091,335
Materials and supplies	1,023,778
Depreciation	82,765
Other operating expenses	33,388
Total Operating Expenses	<u>2,231,266</u>
Operating loss	(1,767,776)
Non-Operating Revenues (Expenses):	
Federal grants	1,302,238
Donated commodities	95,110
State on-behalf payments	262,706
State grants	16,611
Interest income	2,006
Total Non-Operating Revenues (Expenses)	<u>1,678,671</u>
Changes in net position	(89,105)
Net Position, July 1, 2012	<u>1,239,608</u>
Net Position June 30, 2013	<u>\$ 1,150,503</u>

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

RUSSELL COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2013

	Food Service Fund
Cash Flows from Operating Activities	
Cash received from:	
Lunchroom sales	\$ 437,943
Other activities	25,547
Cash paid to/for:	
Employees	828,629
Supplies	923,412
Other activities	33,388
	<hr/>
Net Cash Used by Operating Activities	(1,321,939)
Cash flows from Non-Capital Financing Activities	
Federal grants	1,224,877
State grants	16,611
	<hr/>
Net Cash Provided by Non-Capital Financing Activities	1,241,488
Cash Flows from Investing Activities	
Receipt of interest income	2,006
	<hr/>
Net decrease in cash and cash equivalents	(78,445)
Balances, beginning of year	<hr/> 166,955
Balances, end of year	<hr/> <u>\$ 88,510</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,767,776)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	82,765
State on-behalf payments	262,706
Donated commodities	95,110
Change in assets and liabilities:	
Inventory	5,225
Accounts payable	31
	<hr/>
Net cash used by operating activities	<hr/> <u>\$ (1,321,939)</u>
Schedule of non-cash transactions:	
Donated commodities received from federal government	<hr/> \$ 95,110
State on-behalf payments	<hr/> <u>\$ 262,706</u>

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

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2013

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 236,697
Receivables	<u>5,007</u>
Total Assets	<u>241,704</u>
Liabilities	
Accounts payable	9,700
Due to student groups	<u>232,004</u>
Total Liabilities	<u>241,704</u>
Net Position Held in Trust	<u><u>\$ -</u></u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Russell County School District (the "District") have been prepared to conform with Accounting Principles Generally Accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

The Russell County Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Russell County School District. 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.

For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units", the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, District management has determined that the component unit reportable within the accompanying financial statements is the RUSSELL County School District Finance Corporation, (the "Corporation"). 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 Boosters, Parent-Teacher Associations, etc.

Blended Component Unit - Russell County School District Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Russell County 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) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. Therefore, the financial activities of the Corporation have been blended (reported as if it were part of the District) with those of the District. The Corporation does not publish individual component unit financial statements.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Fund Financial Statements

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

The Governmental Funds are accounted for on the "flow of current financial resources" measurement focus. This measurement focus is based on the concept of accountability, which includes measuring interperiod equity whether current year revenues were sufficient to pay for current year services. The Proprietary Funds are accounted for on an "economic resources" measurement focus. Accordingly, the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Funds reports increases and decreases in total economic net worth. The private purpose trust fund is reported using the economic resources measurement focus.

Governmental Funds

Governmental Funds are those through which most District functions are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Fund and Fiduciary Funds) are accounted for through Governmental Funds. The measurement focus is upon determination of changes in financial resources rather than upon determination of net income:

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (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 the 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.
- (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) 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 Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest and related costs; and for the payment of interest on notes payable, as required by Kentucky Law. This is a major fund.

Proprietary Funds

Proprietary Funds are used to account for ongoing organizations and activities, which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Operating expenses include salaries, benefits, supplies and other items. All items not meeting this definition are reported as nonoperating revenues and expenses. The District has one Proprietary Fund. The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA and for on-behalf payments for retirement and health insurance paid by the State of Kentucky. The Food Service Fund is a major fund.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the District on behalf of outside related organizations or on behalf of other funds within the District.

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

BASIS OF ACCOUNTING

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

Modified Accrual

Under the modified accrual basis, revenues are recognized in the accounting period in which they become susceptible to accrual, i.e., both available and measurable. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include ad valorem taxes, reimbursable-type grants and interest on investments. The District considers all revenues (with the exception of the expenditure-driven grants) as available if they are collected within sixty (60) days after year-end. The expenditure driven grants are considered available if received within one year from the balance sheet date. Property tax revenue is recognized when taxes are received, except at year end when revenue is recognized for taxes received by the District within sixty (60) days subsequent to fiscal year end. Expenditures are recognized in the accounting period in which the liability is incurred. However, exceptions include the amount of unmatured principal and interest on general long-term debt, compensated absences, claims and judgments and certain prepaids which are recognized when due/paid.

In applying the susceptible to accrual concept to revenues from Federal and State sources, the legal contractual requirements of the numerous individual programs are used as guidance. Revenue from grants and entitlements is recognized when all eligibility requirements have been satisfied. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before the District will receive any amounts; therefore, revenues are recognized based upon the occurrence of expenditures. In the other type, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed legal and contractual requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. In all cases, monies received before the revenue recognition criteria have been met are reported as unearned revenue.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrual

Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred.

Revenue Recognition

State Revenue Sources - Revenues from State sources for current operations are primarily from the Support Education Excellence in Kentucky ("SEEK"), administered by the Kentucky Department of Education ("KDE"). The District files reports on average daily attendance ("ADA") student membership with the KDE. The KDE accumulates information from these reports and calculates the allocation of SEEK funds to the District. After review and verification of ADA reports and supporting documentation, the KDE may adjust subsequent fiscal period allocations of SEEK funding. Normally, such adjustments are treated as reductions of revenue in the year the reduction is made, as amounts are not significant.

Property Taxes - On an accrual basis, property tax revenue anticipated to be collected is recognized in the fiscal year for which it is levied. Delinquent taxes collected in subsequent periods are recognized as revenue during the fiscal year in which they are received.

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

C. BUDGETARY POLICIES

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 are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

D. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents are considered to be demand deposits, money market funds, and other investments with an original maturity of 90 days or less.

F. INVENTORIES

Inventories are valued at cost, which approximates market. The food service fund uses the specific identification method and the general fund uses the first-in, first-out method. The District's inventories include various items consisting of school supplies, paper, books, maintenance items, transportation items, commodities, etc. USDA commodities received from the Federal government are recorded at the value established by the Federal government using the average cost method.

G. PREPAID ITEMS

Payments made that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. 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 position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds. All capital assets greater than \$1,000 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 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 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>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I. LONG-TERM DEBT

In the fund-level financial statements, governmental funds report the face amount of debt issued, as well as any premiums (discounts) as other financing sources (uses). Debt issuance costs are reported as debt service expenditures. In the government-wide financial statements, long-term debt is reported as liabilities in the statement of net position. Bond premiums/discounts and issuance cost are amortized over the life of the bonds while deferred amounts on advance refundings are amortized over the shorter of the remaining life of the refunded bonds or the life of the new bonds both in a systematic and rational method, which approximates the effective-interest method.

J. COMPENSATED ABSENCES

Compensated absences are payments to employees for accumulated sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. District employees may accumulate unused sick leave up to a specified amount depending on their date of hire. Sick leave is payable to employees upon termination or retirement at 30% of the current rate of pay on the date of termination or retirement. The District uses the termination method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

K. ACCOUNTING ESTIMATES

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

L. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued And Adopted Accounting Principles

In May 2009, the GASB issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 requires the use of new fund balance classifications and clarifies existing governmental fund type definitions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The District adopted GASB Statement 54 in fiscal year 2011. Required disclosure is reported in Note 9.

In June 2010, the GASB issued Statement 59, *Financial Instruments Omnibus*. GASB 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. This Statement is effective for financial statements for periods beginning after June 15, 2010. The District adopted GASB Statement 59 in fiscal year 2011. The adoption of GASB 59 did not have any impact on the District's financial statements.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In November 2010, the GASB issued Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB 60 provides financial reporting guidance for service concession arrangements (SCAs). SCAs are defined as an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This statement is effective for periods beginning after December 15, 2011 and the District adopted GASB 60 in fiscal year 2013. The District does not have any SCAs and therefore the adoption of GASB 60 does not have any impact on the District's financial statements.

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for periods beginning after June 15, 2012 and the District adopted GASB 61 in fiscal year 2013.

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AJCPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011 and the District adopted GASB 62 in fiscal year 2013. The adoption of GASB 62 does not have any impact on the District's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011 and the District adopted GASB 63 in fiscal year 2013.

In June 2011, the GASB issued Statement 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 53*. GASB 64 provides clarification on whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement is effective for periods beginning after June 15, 2011 and the District adopted GASB 64 in fiscal year 2013. The adoption of GASB 64 does not have any impact on the District's current financial statements.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Accounting Pronouncements

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2012, the GASB issued Statement 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*. GASB 66 was issued to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. GASB 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for periods beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2013, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for periods beginning after December 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In March 2013, the GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement is effective for periods beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

NOTE 2 – PROPERTY TAXES

Property Tax Revenues – Property taxes are normally levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 receive a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property. The property tax rates assessed for the year ended June 30, 2013, to finance operations were \$.486 per \$100 valuation for real property, \$.486 per \$100 valuation for business personal property and \$.522 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

NOTE 3 – DEPOSITS

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2013, \$2,888,076 of the District's bank balance of \$3,139,089 was exposed to custodial credit risk. The bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

NOTE 4 – INTERFUND ACTIVITIES

The following transfers were made during the year:

Fund Financial Statements

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Grants	\$ 2,894
General	Construction	Construction	192,601
General	Construction	Construction	1,460,000
SEEK Capital Outlay	Construction	Cap Funds Request	233,120
FSPK Fund	General	Cap Funds Request	323,829
FSPK Fund	Debt Service	Debt Service	2,156,553

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

Governmental Activities	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Non-Depreciable Assets:				
Land	\$ 1,038,022	\$ -	\$ -	\$ 1,038,022
Construction in progress	-	249,474		249,474
Depreciable Assets:				
Land improvements	1,453,896			1,453,896
Buildings and improvements	52,952,215			52,952,215
Technology equipment	1,574,625	38,069	(51,381)	1,561,313
Vehicles	4,714,627		(204,895)	4,509,732
General equipment	822,016		(1,082)	820,934
Totals at historical cost	62,555,401	287,543	(257,358)	62,585,586
Accumulated depreciation:				
Land improvements	1,261,993	34,086		1,296,079
Buildings and improvements	12,133,663	1,050,395		13,184,058
Technology equipment	1,361,590	85,991	(51,040)	1,396,541
Vehicles	3,649,676	232,937	(204,575)	3,678,038
General equipment	614,955	27,413	(1,082)	641,286
Total accumulated depreciation	19,021,877	1,430,822	(256,697)	20,196,002
Government Activities Capital Assets - Net	<u>\$ 43,533,524</u>	<u>\$ (1,143,279)</u>	<u>\$ (661)</u>	<u>\$ 42,389,584</u>
Depreciation was charged to governmental functions as follows:				
Instruction	\$ 1,192,631			
Student support	337			
Instructional staff	458			
District administration	8,678			
School administration	453			
Plant	21,896			
Transportation	205,823			
Community services	546			
	<u>\$ 1,430,822</u>			
Business-Type Activities	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Buildings and improvements	\$ 1,037,161	\$ -	\$ -	\$ 1,037,161
Technology equipment	27,962			27,962
Food service equipment	873,708			873,708
Totals at historical cost	1,938,831	-	-	1,938,831
Accumulated depreciation:				
Buildings and improvements	356,987	20,329		377,316
Technology equipment	7,609	5,593		13,202
Food service equipment	538,304	56,843		595,147
Total accumulated depreciation	902,900	82,765	-	985,665
Business-Type Activities Capital Assets - Net	<u>\$ 1,035,931</u>	<u>\$ (82,765)</u>	<u>\$ -</u>	<u>\$ 953,166</u>

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 6 – 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 purchases commercial insurance.

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.

NOTE 7 – LONG-TERM LIABILITIES

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

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
Revenue bonds	\$ 26,255,000	\$ 4,840,000	\$ 5,905,000	\$ 25,190,000	\$ 1,570,000
Capital leases	1,459,916		286,764	1,173,152	260,424
	27,714,916	4,840,000	6,191,764	26,363,152	1,830,424
Less Discount/Premium	(275,535)	48,468	24,501	(202,566)	-
Less Deferred Amount on Refundings	(534,093)	(410,935)	132,251	(812,777)	-
Total Bonds and Leases Payable	26,905,288	4,477,533	6,348,516	25,347,809	1,830,424
Other Liabilities:					
Compensated absences	1,025,322	-	162,300	863,022	62,086
Claims	-	3,700	-	3,700	-
Total Other Liabilities	1,025,322	3,700	162,300	866,722	62,086
Total Governmental Activities Long-Term Liabilities	<u>\$ 27,930,610</u>	<u>\$ 4,481,233</u>	<u>\$ 6,510,816</u>	<u>\$ 26,214,531</u>	<u>\$ 1,892,510</u>

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying compensated absences.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE 7 – LONG-TERM LIABILITIES – CONTINUED

Bond Liabilities

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>
2002	\$4,900,000	1.40% - 4.10%
2005	6,720,000	3.50% - 4.20%
2006R	4,780,000	3.35% - 4.00%
2006B	3,590,000	3.75% - 4.00%
2007	8,275,000	4.00% - 4.125%
2011	5,940,000	1.00% - 3.50%
2013R	4,840,000	1.00% - 2.05%

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

The District has “participation agreements” with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

On February 1, 2013, the District issued \$4,840,000 in Refunding Revenue Bonds with an average interest rate of 1.77 percent to advance refund \$4,425,000 of outstanding 2005 Series revenue bonds. The refunding was a partial advance refunding. The net proceeds of \$4,835,935 (after \$48,700 in cost of issuance, \$48,468 in bond premium and \$3,833 in excess cash which was deposited in the bond payment fund) were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust to call the bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$410,935. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2024 using the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 12 years by \$362,755 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$326,834. The bonds will be called on June 1, 2015. Therefore the \$4,425,000 is considered defeased.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE 7 – LONG-TERM LIABILITIES - CONTINUED

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>SFCC Participation</u>	<u>District's Portion</u>
2014	\$ 1,570,000	\$ 822,116	\$ 226,608	\$ 2,165,508
2015	1,600,000	765,840	202,231	2,163,609
2016	1,595,000	711,476	142,011	2,164,465
2017	1,645,000	665,295	143,500	2,166,795
2018	1,695,000	616,894	143,258	2,168,636
2019-2023	9,125,000	2,203,136	488,386	10,839,750
2024-2028	7,960,000	661,306	156,167	8,465,139
	<u>\$ 25,190,000</u>	<u>\$ 6,446,063</u>	<u>\$ 1,502,161</u>	<u>\$ 30,133,902</u>

Capital Lease Liabilities

The following is an analysis of the leased property under capital lease by class:

Classes of Property

Buses and garbage truck, School Improvements

Gross amount of assets	\$ 5,377,526
Accumulated amortization	3,825,000

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2013:

2014	\$ 295,770
2015	267,341
2016	224,198
2017	196,404
2018	145,266
2019-2020	153,381
Total minimum lease payments	1,282,360
Less: Amount representing interest	(109,208)
Present Value of Net Minimum Lease Payments	<u>\$1,173,152</u>

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE 8 – PENSION PLANS

Plan Descriptions

The Russell County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees' Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issue a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

Funding Policy

KTRS plan members are required to contribute 10.855% of their covered salary. CERS plan members are required to contribute 5.0% (6.0% for new hires effective July 1, 2008) of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS is 14.105% of annual covered payroll. The rate for CERS fiscal year 2013 is 19.55% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2013, 2012 and 2011 were \$702,526, \$729,213 and \$661,735, respectively, equal to the required contributions for each year.

For the year ended June 30, 2013, the Commonwealth contributed \$1,409,055 to KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ended June 30, 2013 were \$265,624.

The amount recognized for revenues and expenditures for on-behalf payments relating to fringe benefits such as pension and health care costs, and other operating costs, for the year ended June 30, 2013 was \$4,437,562 for governmental funds and \$262,706 for proprietary funds.

Medical Insurance Plan

Plan Description — In addition to the pension benefits described above, Kentucky Revised Statute 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.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE 8 – PENSION PLANS – CONTINUED

Funding Policy

In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 1.75% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.0% of members' salary for the 2013 fiscal year.

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Sections 457, 401(k) and 403(b). The Plans, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not show these assets and liabilities on these financial statements.

NOTE 9 – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2013, there were no nonspendable fund balances.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2013, the District had \$40,674 restricted for grants in the special revenue fund, \$33,570 restricted for capital projects in the SEEK Capital Outlay Fund, and \$1,013 restricted for debt service in the debt service fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had no commitments at June 30, 2013.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amounts assigned related to encumbrances at June 30, 2013, were \$78,329 recorded in the General Fund. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. There were no amounts intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 9 – FUND BALANCES – CONTINUED

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE 10 – 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 upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the basic financial statements as a result of the cases presently in progress.

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

The District also has outstanding commitments for construction projects.

On January 14, 2013 the District was notified that in order to settle outstanding claims and deficits of the Kentucky School Boards Insurance Trust (KSBIT), a non-profit self-insured pool, an assessment would be made to present and prior insurance trust members. On June 26, 2013, members were notified that the KSBIT board voted on June 24, 2013 to submit a plan for the assessment to the Kentucky Department of Insurance in favor of a novation option, under which a highly rated reinsurer would assume all of the liabilities of KSBIT and its members for claims for a set amount. The option resulted in an estimated liability for the District of \$3,700. This estimate is recorded because the payment is probable and reasonably estimable. The estimate is recorded as a noncurrent liability in the Statement of Net Position as it is not expected to be paid by June 30, 2014, and as an extraordinary item in the Statement of Activities because the item is unusual in nature and infrequent in occurrence. The estimate is not recorded in the Statement of Revenues, Expenditures and Changes in Fund Balances because the amount has not been billed and is not mature.

NOTE 11 – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance/net position:

Special Revenue Fund	\$ 24,481
FSPK Fund	5,506
Construction Fund	56,792
Food Service Fund	89,105

REQUIRED SUPPLEMENTARY INFORMATION

RUSSELL COUNTY SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL**

GENERAL FUND

Year Ended June 30, 2013

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
From local sources:			
Taxes:			
Property	\$ 2,830,000	\$ 3,100,000	\$ 3,383,250
Motor vehicle	560,000	575,000	590,656
Utilities	1,264,000	1,264,000	1,240,219
Earnings on investments	40,000	30,000	26,629
Other local revenues	335,000	195,000	268,830
Intergovernmental - State	11,486,000	11,251,756	16,067,598
Intergovernmental - Indirect Federal	60,000	80,000	117,086
Intergovernmental - Direct Federal	175,000	200,000	791,965
	<u>16,750,000</u>	<u>16,695,756</u>	<u>22,486,233</u>
Total Revenues			
Expenditures:			
Instruction	9,236,771	8,792,307	11,425,197
Support services:			
Student	1,430,455	1,368,539	1,842,739
Instruction staff	596,644	640,210	913,930
District administrative	1,142,721	1,118,388	755,274
School administrative	1,167,748	1,057,418	1,435,174
Business	553,581	486,118	735,240
Plant operation and maintenance	1,952,419	1,740,223	1,975,298
Student transportation	1,444,282	1,483,418	1,816,549
Community service activities			7,350
Other non-instruction	225,379	225,379	225,379
	<u>17,750,000</u>	<u>16,912,000</u>	<u>21,132,130</u>
Total Expenditures			
Excess (Deficit) of Revenues over Expenditures	(1,000,000)	(216,244)	1,354,103
Other Financing Sources (Uses):			
Proceeds from sale of capital assets		33,000	11,960
Transfers in		75,000	556,949
Transfers out		(30,000)	(195,495)
	<u>-</u>	<u>78,000</u>	<u>373,414</u>
Total Other Financing Sources (Uses)			
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(1,000,000)	(138,244)	1,727,517
Fund Balance, July 1, 2012	<u>1,000,000</u>	<u>138,244</u>	<u>127,502</u>
Fund Balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,855,019</u>

Both inflows and outflows are equally different in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds by the amount of on-behalf payments of \$4,437,562.

RUSSELL COUNTY SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL**

SPECIAL REVENUE FUND

Year Ended June 30, 2013

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
Other local revenues	\$ 17,000	\$ 18,000	\$ 30,980
Intergovernmental - State	322,665	692,732	853,403
Intergovernmental - Indirect Federal	595,770	2,460,144	2,956,166
Intergovernmental - Direct Federal	-		71,139
Total Revenues	<u>935,435</u>	<u>3,170,876</u>	<u>3,911,688</u>
Expenditures:			
Instruction	456,713	2,608,289	3,247,944
Support services:			
Student	1,782	26,115	27,615
Instruction staff	201,313	142,578	284,347
Business	1,911	87,260	46,876
Student transportation		7,652	16
Community service activities	273,716	328,982	332,265
Total Expenditures	<u>935,435</u>	<u>3,200,876</u>	<u>3,939,063</u>
Excess (Deficit) of Revenues over Expenditures	-	(30,000)	(27,375)
Other Financing Sources (Uses):			
Transfers in		30,000	2,894
Total Other Financing Sources (Uses)	-	<u>30,000</u>	<u>2,894</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	-	(24,481)
Fund Balance, July 1, 2012	-	-	<u>65,155</u>
Fund Balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,674</u>

SUPPLEMENTARY INFORMATION

RUSSELL COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2013

	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets:					
Cash and cash equivalents	\$ 33,570		\$ 69,132	\$ 1,013	\$ 103,715
Total Assets	<u>\$ 33,570</u>	<u>\$ -</u>	<u>\$ 69,132</u>	<u>\$ 1,013</u>	<u>\$ 103,715</u>
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 69,132	\$ -	\$ 69,132
Total Liabilities	<u>-</u>	<u>-</u>	<u>69,132</u>	<u>-</u>	<u>69,132</u>
Fund Balances					
Restricted	33,570		-	1,013	34,583
Total Fund Balances	<u>33,570</u>	<u>-</u>	<u>-</u>	<u>1,013</u>	<u>34,583</u>
Total Liabilities and Fund Balances	<u>\$ 33,570</u>	<u>\$ -</u>	<u>\$ 69,132</u>	<u>\$ 1,013</u>	<u>\$ 103,715</u>

RUSSELL COUNTY SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

Year Ended June 30, 2013

	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues					
From local sources:					
Property taxes	\$ -	\$ 1,624,128	\$ -	\$ -	\$ 1,624,128
Earnings on investments				1,182	1,182
Intergovernmental - State	266,690	850,748		331,252	1,448,690
Total Revenues	266,690	2,474,876	-	332,434	3,074,000
Expenditures					
Facilities acquisition and construction			249,393		249,393
Bond issue costs				48,700	48,700
Debt service:					
Principal				1,568,633	1,568,633
Interest				923,174	923,174
Total Expenditures	-	-	249,393	2,540,507	2,789,900
Excess (Deficit) of Revenues over Expenditures	266,690	2,474,876	(249,393)	(2,208,073)	284,100
Other Financing Sources (Uses)					
Bond proceeds from refunding revenue bonds				4,840,000	4,840,000
Bond premium				48,468	48,468
Payment to refunded escrow agent				(4,835,935)	(4,835,935)
Transfers in			192,601	2,156,553	2,349,154
Transfers out	(233,120)	(2,480,382)			(2,713,502)
Total Other Financing Sources (Uses)	(233,120)	(2,480,382)	192,601	2,209,086	(311,815)
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	33,570	(5,506)	(56,792)	1,013	(27,715)
Fund balance, July 1, 2012	-	5,506	56,792	-	62,298
Fund balance, June 30, 2013	\$ 33,570	\$ -	\$ -	\$ 1,013	\$ 34,583

RUSSELL COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2013

	Russell Springs Elementary	Union Chapel Elementary	Jamestown Elementary	Salem Elementary	Russell County Middle School	Russell County High School	Total Agency Fund
Assets							
Cash and cash equivalents	\$ 47,288	\$ 9,136	\$ 20,764	\$ 21,210	\$ 30,194	\$ 108,105	\$ 236,697
Receivables	242				1,759	3,006	5,007
Total Assets	<u>\$ 47,530</u>	<u>\$ 9,136</u>	<u>\$ 20,764</u>	<u>\$ 21,210</u>	<u>\$ 31,953</u>	<u>\$ 111,111</u>	<u>\$ 241,704</u>
Liabilities							
Accounts payable	\$ -	\$ 9,136	\$ -	\$ -	\$ 564	\$ -	\$ 9,700
Due to student groups	47,530	-	20,764	21,210	31,389	111,111	232,004
Total Liabilities	<u>\$ 47,530</u>	<u>\$ 9,136</u>	<u>\$ 20,764</u>	<u>\$ 21,210</u>	<u>\$ 31,953</u>	<u>\$ 111,111</u>	<u>\$ 241,704</u>

RUSSELL COUNTY SCHOOL DISTRICT

SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS AND LIABILITIES

AGENCY FUNDS

June 30, 2013

SCHOOL	CASH			CASH BALANCES June 30, 2013	RECEIVABLES June 30, 2013	ACCOUNTS PAYABLE June 30, 2013	DUE TO STUDENT GROUPS June 30, 2013
	BALANCES July 1, 2012	RECEIPTS	DISBURSEMENTS				
Russell County High	\$ 79,408	\$ 306,142	\$ 277,445	\$ 108,105	\$ 3,006	\$ -	\$ 111,111
Russell County Middle	25,941	49,855	45,602	30,194	1,759	564	31,389
Jamestown Elementary	24,258	37,172	40,666	20,764			20,764
Russell Springs Elementary	50,841	34,477	38,030	47,288	242		47,530
Salem Elementary	18,577	26,572	23,939	21,210			21,210
Union Chapel Elementary	8,927	26,989	26,780	9,136		9,136	-
	<u>\$ 207,952</u>	<u>\$ 481,207</u>	<u>\$ 452,462</u>	<u>\$ 236,697</u>	<u>\$ 5,007</u>	<u>\$ 9,700</u>	<u>\$ 232,004</u>

RUSSELL COUNTY SCHOOL DISTRICT

SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES

RUSSELL COUNTY HIGH SCHOOL

YEAR ENDED JUNE 30, 2013

NAME OF ACTIVITY	CASH BALANCES JULY 1, 2012	RECEIPTS	DISBURSE- MENTS	CASH BALANCES JUNE 30, 2013	RECEIVABLES JUNE 30, 2013	ACCOUNTS PAYABLE JUNE 30, 2013	DUE TO STUDENT GROUPS JUNE 30, 2013
Academic Team	\$ 563	\$ -	\$ -	563	\$ -	\$ -	\$ 563
Agriculture (Shop)	2,428	225	-	2,653			2,653
Art Club	466	3,864	3,559	771			771
Athletic	19,007	90,593	70,469	39,131			39,131
Boss	337	940	594	683			683
Concession	5,919	4,701	8,000	2,620	179		2,799
DECA	3,062	7,645	9,087	1,620			1,620
Drama	901	-	-	901			901
FCA	284	1,355	1,317	322			322
FCCLA	213	520	76	657			657
FFA	5,474	30,035	30,621	4,888	1,427		6,315
Flower & Gift Fund	1,734	4,133	4,220	1,647	368		2,015
Freshman Class	662	1,977	2,171	468			468
History	157	-	-	157			157
Horticulture	2,062	-	-	2,062			2,062
Junior Class	-	49	-	49			49
Library	580	1,926	1,164	1,342			1,342
Miscellaneous	4,006	58,285	34,712	27,579			27,579
Newspaper	83	1,340	55	1,368			1,368
Pride Club	17	-	-	17			17
ROTC	3,447	11,623	10,846	4,224	140		4,364
Senior Class	2,785	56,207	54,594	4,398	512		4,910
Sophomore	-	42	-	42			42
Spanish	847	3,160	2,316	1,691			1,691
Spirit Club	127	769	663	233			233
State Books	397	-	-	397			397
Student Council	1,920	-	-	1,920			1,920
Tech Ed	27	-	-	27			27
WLKR	283	-	-	283	170		453
Y-Club	381	13,380	13,634	127			127
Yearbook	21,239	21,875	37,849	5,265	210		5,475
Sub Total	79,408	314,644	285,947	108,105	3,006	-	111,111
Interfund Transfers		8,502	8,502				
TOTAL	\$ 79,408	\$ 306,142	\$ 277,445	\$ 108,105	\$ 3,006	\$ -	\$ 111,111

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

RUSSELL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster -			
Passed Through State Department of Education:			
National School Lunch	10.555	7750002-12 7750002-13	\$ 193,556 732,748
School Breakfast Program	10.553	7760005-12 7760005-13	77,766 298,167
Non-Cash Assistance (Commodities)			
National School Lunch Program	10.555	057502-02	95,110
TOTAL CHILD NUTRITION CLUSTER			<u>1,397,347</u>
TOTAL U.S. DEPT. OF AGRICULTURE			<u>1,397,347</u>
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Congressionally Identified Awards and Projects	11.469	2723C	250
TOTAL U.S. DEPARTMENT OF COMMERCE			<u>250</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
National Guard Civilian Youth Opportunities	12.404	5042 5043	91 71,048
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>71,139</u>
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed Through Lake Cumberland Area Development District			
WIA Youth Activities	17.259	5883A	81,397
TOTAL U.S. DEPARTMENT OF LABOR			<u>81,397</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Special Education Cluster -			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	3372 3373	193,570 107,201
			<u>300,771</u>
Special Education - Preschool Grants	84.173	3431 3432 3433	2,576 17,783 18,342
			<u>38,701</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u>339,472</u>
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Impact Aid	84.410	GF	791,965
Passed Through Kentucky Council on Postsecondary Education			
Adult Education - State Grant Program	84.002	3652 3732 3733 3733S	11,188 4,824 46,445 3,064
			<u>65,521</u>
Passed Through State Department of Education			
Title I Grants to Local Educational Agencies	84.010	3102 3102D 3102M 3102T 3103 3103D 3103M	189,088 49,059 3,492 6,750 835,401 6,141 9,377
			<u>1,099,308</u>
Migrant Education - State Grant Program	84.011	3112 3113 3113S	2,606 77,422 8,213
			<u>88,241</u>

The accompanying notes are an integral part of this schedule.

RUSSELL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Vocational Education - Basic Grants to States	84.048	3482A 3483	1,076 <u>18,871</u> <u>19,947</u>
Twenty-First Century Community Learning Centers	84.287	5501 5501C 5501J 5502 5502C 5502S 5503C	16,805 3,960 35,000 50,442 68,500 3,866 90 <u>178,663</u>
Rural Education	84.358	3502 3503	5,939 <u>43,864</u> <u>49,803</u>
English Language Acquisition Grants	84.365	3452	4,513
Improving Teacher Quality - State Grants	84.367	4012 4013	36,016 <u>124,162</u> <u>160,178</u>
Education Jobs	84.410	4411	<u>701,470</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>3,499,081</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Big Sandy Area Development District Temporary Assistance for Needy Families	93.558	0042	<u>166,557</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>166,557</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 5,215,771</u>

The accompanying notes are an integral part of this schedule.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Russell County School District under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Russell County School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of Russell County School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

NOTE D – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

RUSSELL COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes no

Type of auditor's report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes no

Section I-Summary of Auditor's Results - Continued

Identification of major programs:

CFDA Number	Federal Program or Cluster
DEPARTMENT OF AGRICULTURE	
Child Nutrition Cluster	
10.555	National School Lunch Program
10.553	School Breakfast Program
DEPARTMENT OF EDUCATION	
Special Education Cluster	
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants
Other Education Programs	
84.010	Title I Grants to Local Educational Agencies
84.041	Impact Aid
84.410	Education Jobs

Dollar threshold used to distinguish
Between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

REFERENCE NUMBER 2013-01 ADJUSTMENTS

Criteria: The District's management is responsible for establishing and maintaining internal controls for the proper recording of all the District's accounting transactions.

Condition: As part of the audit we proposed material adjustments to the financial statements.

Cause: The District did not identify items to be corrected.

Effect: The design of the internal controls identifying adjustments did not prevent material adjustments.

Recommendation: We recommend District management and financial personnel review the procedures and processes involved in recording journal entries and enhance its internal control policies to ensure proper recording of these items.

Management Response: Management will review the procedures and processes involved in recording journal entries and enhance its internal control policies to ensure proper recording of these items by November 15, 2013.

Section III – Federal Award Findings and Questioned Costs

REFERENCE NUMBER 2013-02

DEPARTMENT OF EDUCATION – Special Education Cluster – CFDA No. 84.027 and 84.173 – Year ended June 30, 2013 – Passed through Kentucky Department of Education

Criteria: Personnel activity reports and/or periodic certifications to substantiate payroll charges are required to be completed under the provisions of OMB Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments.”

Condition: Documentation of preparation of personnel activity reports and/or periodic certifications was not completed for all employees charged to the Special Education Cluster.

Cause: Program administrators did not follow the payroll documentation requirements under OMB Circular A-87.

Context: – A sample of 40 payroll transactions totaling \$11,316.03 was selected for audit from a population totaling \$261,684.51. The test found that three transactions were not in compliance with questioned costs totaling \$534.69.

Effect: The personnel costs for which documentation could not be located may be disallowed.

Questioned Costs: – \$534.69

Recommendation: Russell County School District should ensure that program administrators follow the documentation requirements for payroll charges to federal programs.

Management Response: Management has implemented procedures as of November 1, 2013 to correct this matter.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

RUSSELL COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2013

DEPARTMENT OF EDUCATION

FINDING 2012-02: Title I Cluster and Special Education Cluster

Condition: The finding resulted from budget not being monitored.

Recommendation: The auditor recommended that procedures be implemented requiring budgets be monitored.

Current Status: The finding was corrected during the current fiscal year.

**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**

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.scacpa.com

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Russell County School District
Jamestown, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I and II of the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Russell County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Russell County School District's basic financial statements, and have issued our report thereon dated November 1, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Questioned Costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs* as items 2013-01 to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Russell County School District in a separate letter dated November 1, 2013.

Russell County School District's Response to Findings

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

Purpose of this Report

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



Certified Public Accountants
Elizabethtown, Kentucky
November 1, 2013

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

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.scacpa.com

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Russell County School District
Jamestown, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Russell County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Russell County School District's major federal programs for the year ended June 30, 2013. Russell County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Russell County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I and II of the Independent Auditor's Contract. 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 Russell County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Russell County School 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-02. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

Management of Russell County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Russell County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program 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 Russell County School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-02 that we consider to be significant deficiencies.

Russell County School District's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Russell County School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Certified Public Accountants
Elizabethtown, Kentucky
November 1, 2013

MANAGEMENT LETTER AND COMMENTS

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.scacpa.com

MEMBER
AMERICAN INSTITUTE
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OF CPAs

Members of the Board of Education of
Russell County School District
Jamestown, Kentucky

In planning and performing our audit of the basic financial statements of Russell County School District for the year ended June 30, 2013, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. Any uncorrected comments from the prior year have been included in the memorandum. A separate report dated November 1, 2013, contains our report on the District's internal control. This letter does not affect our report dated November 1, 2013, on the financial statements of the Russell County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of management, the members of the Russell County Board of Education, 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 parties.

A handwritten signature in black ink that reads "Stiles, Carter & Associates". The signature is written in a cursive, flowing style.

Certified Public Accountants
Elizabethtown, Kentucky
November 1, 2013

RUSSELL COUNTY SCHOOL DISTRICT

COMMENTS

June 30, 2013

UNCORRECTED PRIOR YEAR COMMENTS

RUSSELL COUNTY HIGH SCHOOL

FUNDRAISERS

We noted FFA Coke Sales and Deca Krispy Kreme Donut Sales did not have the Fundraiser Worksheet, Form F-SA-2B, completed. We also noted that FFA receipted funds from strawberries sold without Form F-SA-2B completed. The Redbook requires that fund raising activities be monitored using the Fundraiser Worksheet, form F-SA-2B.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

BOOSTER CLUBS

We noted that the List of Officers, Budgets and Annual Financial Reports were not turned in for the following booster clubs: Gridiron Moms & Dads, RC Golf Team, Lady Laker Golf, RC Volleyball Boosters, RC Cheerleaders Boosters, RCHS Swim Team, RC Boys Hardwood Parents, Lady Laker Basketball, RC Baseball Boosters, RC Lady Laker Softball, RC Tennis, RCHS Track Team, RCHS Band, NJROTC Booster, Football, Golf Boys, Golf Girls and Volleyball.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

CURRENT YEAR COMMENTS

JAMESTOWN ELEMENTARY

CHECK WRITTEN TO CASH

We noted check #5325 dated 12/18/2012 in the amount of \$250, written to cash from the Umbrella Fund. The Redbook requires that checks not be made payable to cash.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

PURCHASE ORDER

We noted that check #5354 dated 6/18/2013 in the amount of \$2,740.20 written to Lifetouch to pay for yearbooks from the Annual Fund contained an F-SA-7, Purchase Order dated 6/18/2013, after the Lifetouch invoice date of 4/24/2013.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

RUSSELL COUNTY SCHOOL DISTRICT

COMMENTS - CONTINUED

June 30, 2013

RUSSELL COUNTY HIGH SCHOOL

INVENTORY CONTROLS

We noted that Coke Sales are being sold as follows: (1) individual soda sales at the end of the day to students and (2) by the case through preorders. The individual soda sales to students should be tracked through Inventory Control Worksheet, Form F-SA-5. Check #7410 dated 8/22/2012 to Clark Beverage Group for soft drinks from the Misc/General fund was used to purchase soft drinks for resale, without the completion of form F-SA-5, Inventory Control Worksheet. The Redbook requires that reasonable profits on any stocked items held for resale be verified using the Inventory Control Worksheet.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

UNTIMELY DEPOSITS

We noted that deposits dated 11/5/2012 in the amount of \$23,240.72 and 5/28/2013 in the amount of \$6,167.13 were not deposited in a timely manner. The deposit dated 11/5/2012 contained Multiple Receipt Form, F-SA-6, dated from 10/24/2012 and ticket sales forms from games dated 10/23/12, 10/26/12, 10/30/12, 11/1/12 and 11/2/12. The following amounts were collected with dates of the respective documents: No date - \$865.20, 10/23/2012 - \$244, 10/24/2012 - \$237, 10/25/2012 - \$184, 10/26/2012 - \$6,058.36, 10/29/2012 - \$765, 10/30/2012 - \$2,593, 10/31/2012 - \$204, 11/1/2012 - \$679, 11/2/2012, \$3,927, 11/5/2012 - \$7,095.86. We noted a deposit dated 5/28/2013 contained two ticket sales forms from games dated 5/22/2013 and 5/23/2013 totaling \$1,890 and \$1,420 from baseball and softball district tournament games.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

MULTIPLE RECEIPT FORMS

We noted a deposit dated 8/15/2012 in the amount of \$1,523.36 contained a Multiple Receipt Form, F-SA-6, from FFA for the state fair in the amount of \$410 that was not signed by students, but instead completed by the sponsor remitting the money. We noted a deposit dated 10/16/2012 for \$216.10 contained two Multiple Receipt Forms for drink sales in the amounts of \$24 and \$185 not signed by students, but instead completed by the sponsor remitting the money.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

PURCHASE ORDER

We noted check #7410 dated 8/22/2012 written to Clark Beverage Group for soft drinks from the Misc/General fund had a Purchase Order, form F-SA-7, dated 8/6/2012 after the invoice date of 8/3/2012. We noted check #7770 dated 1/16/2013 written to Walmart for cleaning supplies from the Misc/General fund had a Purchase Order, form F-SA-7, dated 1/11/2013 after the invoice date of 1/10/2013. We noted check #7949 dated 4/10/2013 to Florida Farm Bureau for fresh strawberries from FFA Fund that contained a Purchase Order, form F-SA-7, dated 4/9/2013 after the invoice dated of 3/19/2013.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

RUSSELL COUNTY SCHOOL DISTRICT

COMMENTS - CONTINUED

June 30, 2013

RUSSELL COUNTY HIGH SCHOOL – CONTINUED

UNALLOWABLE PURCHASE

We noted check #7617 dated 11/12/12 to Jaxs for gift cards from the Misc/General fund did not contain signatures from individuals receiving the gift cards, therefore we could not determine card recipients.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

RUSSELL COUNTY MIDDLE SCHOOL

SEGREGATION OF DUTIES

We noted the school's bookkeeper enters invoices into the accounting system and matches checks as well as prints checks and mails checks. The Redbook requires these duties be segregated.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

FUNDRAISERS

We noted the following fundraisers did not complete F-SA-2A, Fundraiser Approval Worksheet and F-SA-2B, Fundraiser Worksheet: General Fund Chocolate Sales, General Fund Chick-A-Licious, and Y-Club Krispy Kreme Sales. The Redbook requires that fund raising activities be monitored using the Fundraiser Worksheet, form F-SA-2B.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

PRINCIPAL'S COMBINING BUDGET

We noted the F-SA-11, Principal's Combining Budget, budgeted receipts and expenditures did not reconcile to the F-SA-12, Individual Activity Fund Budgets, budgeted receipts and expenditures.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

MULTIPLE RECEIPT FORMS

We noted a deposit dated 4/30/2012 in the amount of \$228.62 did not contain form F-SA-6, Multiple Receipt Form, for the following student collections: 7th Grade Survivor (\$148.00) and Library Late Due Fees (\$80.62). The Redbook requires that Teachers/Sponsors/Students shall use a Multiple Receipt Form when collecting money.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

RUSSELL COUNTY SCHOOL DISTRICT

COMMENTS - CONTINUED

June 30, 2013

RUSSELL COUNTY MIDDLE SCHOOL – CONTINUED

CONCESSIONS

We noted a deposit dated 12/19/2012 in the amount of \$507.10 for 8th Grade and On a Roll Concessions did not contain an F-SA-17, Sales from Concessions/Bookstore/Pencil Machine Form for either concession.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

UNALLOWABLE PURCHASE

We noted check #5664 dated 10/30/2012 in the amount of \$80 written to SugaSisters was used to purchase Cupcakes for Faculty/Staff from the Ballgame Concessions Fund. Staff items should be purchased from Faculty Funds.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

PURCHASE ORDER

We noted check #5688 dated 11/30/2012 in the amount of \$1,338.53, written to Follet Software for Hosted Service Rental contained an F-SA-7, Purchase Order dated 11/30/2012, after the invoice date of 9/10/2012. We noted check #5778 dated 6/4/2013 in the amount of \$743.50 written to Russell County Nutrition from the Student Coke fund for Breakfast for testing which did not contain a Purchase Order. The Redbook requires that to initiate a purchase, a Purchase Order should be prepared and approved by the sponsor and principal before the payment is obligated.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

MISSING INVOICE

We noted check #5718 dated 1/30/2013 in the amount of \$780 written to Krispy Kreme for Y Club Sales out of the KUNA fund was purchased without a vendor's invoice. The Redbook requires that before being processed for payment, each disbursement shall be documented by a completed purchase order and an original vendor invoice or standard invoice.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

RUSSELL COUNTY SCHOOL DISTRICT

COMMENTS - CONTINUED

June 30, 2013

SALEM ELEMENTARY SCHOOL

PURCHASE ORDERS

We noted check #5586 dated 7/3/2012 in the amount of \$63.64, written to Country Café out of the Concessions Fund for lunch for workers was not approved with an F-SA-7, Purchase Order before the purchase was made. We noted check #5587 dated 7/3/2012 in the amount of \$253.63, written to Country Café out of the Concessions Fund for lunch for workers was not approved by a Purchase Order before the purchase was made. We noted check #5588 dated 7/30/2012 in the amount of \$231.49 written to Terry Grider for Teacher Supplies out of the Teachers' Lounge Fund contained a Purchase Order dated 7/30/2012, after the purchase was made on 7/27/2012.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

UNALLOWABLE PURCHASE

We noted checks #5586 and #5587, both written to Country Café in the amounts of \$63.64 and \$253.63, both dated 7/3/2012 for Lunch for Workers were paid from the Concessions Activity Fund, a student generated fund. Staff items are to be paid with Faculty Funds.

MANAGEMENT RESPONSE

Management will meet with school personnel and implement corrective action by November 30, 2013.

UNION CHAPEL ELEMENTARY SCHOOL

MULTIPLE RECEIPT FORM

We noted a deposit dated 1/3/2013 in the amount of \$437.55 did not contain a Multiple Receipt Form, form F-SA-6, detailing \$376.30 in cash receipted into the Library fund.

MANAGEMENT RESPONSE

The school was closed by Board action at the end of 2013.