

**RUSSELL INDEPENDENT
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



**Kelley,
Galloway &
Company, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	3-5
MANAGEMENT'S DISCUSSION AND ANALYSIS	6-10
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements -	
Statement of Net Position.....	11
Statement of Activities	12
Fund Financial Statements -	
Balance Sheet - Governmental Funds.....	13
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position - Proprietary Funds.....	17
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	18
Statement of Cash Flows - Proprietary Funds	19
Statement of Net Position - Fiduciary Funds.....	20
Statement of Changes in Net Position - Fiduciary Funds	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - (Non-GAAP Budgetary Basis) - General Fund.....	22
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue Fund.....	23
Notes to Financial Statements.....	24-36
SUPPLEMENTAL INFORMATION:	
Combining Balance Sheet - Non-Major Governmental Funds.....	37
Combining Statement of Revenues, Expenditures and Changes In Fund Balances - Non-Major Governmental Funds.....	38
Combining Statement of Revenues, Expenditures and Changes In Fund Balances - Non-Major Debt Service Funds.....	39
Statement of Changes in Assets and Liabilities - School Activity Funds	40
Statement of Changes in Assets and Liabilities - Russell High School Activity and Scholarship Funds.....	41-42
Schedule of Expenditures of Federal Awards	43-44
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	45-46

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133.....	47-48
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	49
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	50
CORRECTIVE ACTION PLAN.....	51
MANAGEMENT LETTER POINTS	52-54



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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

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

INDEPENDENT AUDITOR'S REPORT

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

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 Independent School District (the "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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the 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 Russell Independent School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 6 through 10 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 Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements and the 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 and individual nonmajor fund financial statements and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013, on our consideration of Russell Independent 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kelley, Alloway + Company, PSC

October 15, 2013

**RUSSELL INDEPENDENT SCHOOL DISTRICT - RUSSELL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2013**

As management of the Russell Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the report.

FINANCIAL HIGHLIGHTS

- The General Fund ending cash balance for the District increased from \$2.87 million at June 30, 2012 to \$3.16 million at June 30, 2013. The increase was due to delinquent and motor vehicle tax collections above budget. Support Education Excellence in Kentucky (SEEK) funding was above budget due to improved attendance, unexpected partial funding of our preschool program by the Department of Education and utility costs below budget. The increases were offset by lower than anticipated utility tax collections, retirement sick leave payouts above budget and funding the deficit related to the Early Childhood Learning Center program.
- The General fund has \$16.6 million in revenue, of which 65.0% consisted of state funding (SEEK program and on-behalf payments for insurance and retirement) and 34.7% in property, utilities and motor vehicle taxes. Expenditures totaled \$16.4 million (including on-behalf payments) for the General Fund. Of the total disbursements, salaries and benefits were 83.8% of the total. The District continues to lead our region in certified staff wages, which allows us to impact our children with highly-skilled professionals. This is reflected in the excellence of our test scores.
- 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 the Kentucky Department of Education (KDE) stringent compliance regulations. The District made \$894,917 in bond payments during the 2012-2013 year. Including assistance from the School Facilities Construction Commission, total bond payments made by the District were \$1,252,219.
- The average daily attendance for students declined slightly. Our funding for 2012-2013 was based upon 2,013 children, as compared to 2,017 in the previous year. Funding will continue to decline as our ADA for 2013-2014 will be based upon 1,999 children. Each child represents approximately \$4,000 in revenues to the District. ADA is what drives our portion of SEEK and is the largest source of revenues for the District.
- The Food Service program suffered a significant operational loss this year due to changes made by the Healthy, Hunger-Free Kids Act. The Act significantly changed portion sizes served for lunches, as well as the number of calories and types of foods served. This had a significant impact on our lunch participation.
- The District began a paid preschool program. The Early Childhood Learning Center was initiated to meet the needs of our preschool age children that do not qualify for the state preschool program. The Center was met with great acceptance by our community and immediately had to open a second classroom setting. The initial year was met with several start-up costs and fell into a deficit. The District administration feels strongly that this is a crucial program for our community and will be successful well into the future.
- The financial statements include payments made by the Commonwealth of Kentucky for retirement, health insurance, life insurance, administrative fees and utilization of the Russell Area Vocational School by our students. The total amount was \$3.2 and \$2.7 million for the 2013 and 2012 fiscal years, respectively. These amounts are shown as both revenue and expenses in the financial statements, and therefore, do not affect the fund position of the District. The increase for the current year shows the inclusion of the bond payments made by the state on behalf of the District.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The *statement of net 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, and student transportation. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

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

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

The basic governmental fund financial statements can be found on pages 13 through 23 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 24 through 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 approximately \$11.0 and \$11.1 million as of June 30, 2013 and 2012, respectively.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position comparison for the periods ending June 30, 2013 and 2012

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

	<u>June 30, 2013</u>	<u>June 30, 2012</u> (as Restated)
Current Assets	\$ 3,915,282	\$ 4,360,513
Noncurrent Assets	21,513,125	21,853,616
Total Assets	<u>\$ 25,428,407</u>	<u>\$ 26,214,129</u>
Current Liabilities	\$ 1,250,230	\$ 1,470,494
Noncurrent Liabilities	13,179,749	13,569,640
Total Liabilities	<u>14,429,979</u>	<u>15,040,134</u>
Net Position		
Investment in capital assets (net of debt)	8,102,956	7,710,394
Restricted	307,217	788,921
Unrestricted	2,588,255	2,674,680
Total Net Position	<u>\$ 10,998,428</u>	<u>\$ 11,173,995</u>

The overall net position for 2013 decreased by approximately \$176,000, or 1.1%, due primarily to losses incurred by the Food Service Program due to the changes made by the Health, Hunger-Free Kids Act as discussed previously.

The following table presents a summary of all governmental activities and business-type activities revenues and expenses for the fiscal year ended June 30, 2013, with comparison to 2012.

	<u>2013</u>	<u>2012</u>
Revenues:		
Local Revenue Sources	\$ 6,823,289	\$ 6,551,305
State Revenue Sources	12,161,485	12,183,245
Federal Revenue	1,499,892	1,965,616
Other Sources	1,878	99,708
Total Revenues	<u>20,486,544</u>	<u>20,799,874</u>
Expenses:		
Instruction	11,456,988	10,843,929
Student Support Services	707,114	682,224
Instructional Support	1,481,642	1,519,373
District Administration	772,964	822,625
School Administration	975,442	970,560
Plant Operations	1,942,572	1,870,749
Student Transportation	825,526	774,328
Business and Other Support Services	178,612	170,250
Community Services	123,866	126,545
Debt Service	490,000	633,458
Food Service	1,175,059	1,078,272
Child Care Fund	43,439	49,574
ECLC Fund	131,296	-
Total Expenses before KSBIT	<u>20,304,520</u>	<u>19,541,887</u>
Extraordinary item - KSBIT	357,591	-
Total Expenses	<u>20,662,111</u>	<u>19,541,887</u>
Revenues in Excess (Deficiency) of Expenses	<u>\$ (175,567)</u>	<u>\$ 1,257,987</u>

FUND FINANCIAL ANALYSIS

The District's total General Fund revenues for 2013 exceeded budgeted revenues by \$.3 million, or 2.2%. Actual General fund expenditures, excluding the contingency reserve, were approximately \$.3 million less than budget due to energy management savings, reduction in anticipated expenditures for the state preschool program, mid-year certified teacher retirements, reduction in maintenance supplies and carryover of monies allocated to the schools for materials and supplies. Of the total General Fund expenditures, site-based councils expended 72.3%, while 10.9% was spent for maintenance and operations, 6.2% on administration, 5.9% on special needs students, and 4.7% on transportation.

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2013 and 2012 for selected funds (including on-behalf payments):

June 30, 2013					
Revenues:	General Fund	Special Revenue	Capital Projects	Food Service	Total
Local revenue sources	\$ 5,807,447	\$ 101,135	\$ 394,216	\$ 386,288	\$ 6,689,086
State revenue sources	10,768,404	414,924	894,019	67,342	12,144,689
Federal revenue	-	955,027	-	544,865	1,499,892
Other sources	80,852	37,755	-	-	118,607
Total Revenues	16,656,703	1,508,841	1,288,235	998,495	20,452,274
Expenses:					
Instruction	9,764,834	1,041,012	-	-	10,805,846
Student support services	703,224	3,650	-	-	706,874
Instructional support	1,137,690	343,952	-	-	1,481,642
District administration	754,160	-	-	-	754,160
School administration	970,550	-	-	-	970,550
Business support	177,894	-	-	-	177,894
Plant operations	1,842,779	-	-	-	1,842,779
Student transportation	836,155	12,692	-	-	848,847
Community support	16,331	107,535	-	-	123,866
Food services	34,170	-	-	1,140,889	1,175,059
Facilities acquisition and construction	-	-	378,444	-	378,444
Debt service	49,808	-	1,252,219	-	1,302,027
Transfers	79,773	-	-	-	79,773
Total expenses	16,367,368	1,508,841	1,630,663	1,140,889	20,647,761
Revenues over (under) expenses	<u>\$ 289,335</u>	<u>\$ -</u>	<u>\$ (342,428)</u>	<u>\$ (142,394)</u>	<u>\$ (195,487)</u>
June 30, 2012					
Revenues:	General Fund	Special Revenue	Capital Projects	Food Service	Total
Local revenue sources	\$ 5,548,861	\$ 96,655	\$ 393,551	\$ 457,905	\$ 6,496,972
State revenue sources	10,789,035	426,931	893,072	69,452	12,178,490
Federal revenue	-	1,424,453	-	541,163	1,965,616
Bond refunding	-	-	1,780,000	-	1,780,000
Other sources	113,052	45,300	202,081	1,743	362,176
Total Revenues	16,450,948	1,993,339	3,268,704	1,070,263	22,783,254
Expenses:					
Instruction	8,964,656	1,495,568	-	-	10,460,224
Student support services	680,837	1,147	-	-	681,984
Instructional support	1,147,097	372,276	-	-	1,519,373
District administration	803,507	-	-	-	803,507
School administration	965,573	-	-	-	965,573

Business support	169,501	-	-	-	169,501
Plant operations	1,807,340	-	-	-	1,807,340
Student transportation	819,012	13,115	-	-	832,127
Community support	15,312	111,233	-	-	126,545
Food services	39,907	-	-	1,038,365	1,078,272
Facilities acquisition and construction	-	-	5,539,104	-	5,539,104
Debt service	53,275	-	1,250,935	-	1,304,210
Bond refunding payment	-	-	1,780,000	-	1,780,000
Transfers	142,701	-	35,287	-	177,988
Total expenses	<u>15,608,718</u>	<u>1,993,339</u>	<u>8,605,326</u>	<u>1,038,365</u>	<u>27,245,748</u>
Revenues over (under) expenses	<u>\$ 842,230</u>	<u>\$ -</u>	<u>\$ (5,336,622)</u>	<u>\$ 31,898</u>	<u>\$ (4,462,494)</u>

BUDGETARY IMPLICATIONS FOR 2013-2014

In Kentucky, the public school fiscal year is July 1 - June 30; however, federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District anticipates adoption of a budget in September 2013 well in excess of the minimum. The District will utilize the ending cash position of the General Fund to facilitate shortfalls in funding by the Commonwealth. Declines in funding at both Federal and State levels pushes the burden of the mandatory continuation of programs to the local community. It is anticipated that the District will continue to look to local tax collections to help subsidize the difference. The local community will not be able to continue to bear the fiscal needs of both federal and state programs. If cuts like the past year's federal Sequestration and limited funding for state programs continue, the services regarding a wide variety of programs will be greatly diminished. However, the District does not feel any imminent fiscal danger and will conservatively monitor the financial position of the District.

The Russell High School track had stability issues that began during the fall of 2012. The significance of the cracking and earth displacement forced the District to cancel the track season and prevent track utilization by students and community members. The Board of Education has elected to repair the track at a cost of approximately \$600,000, which includes earth stabilization, water displacement and an entirely new track. This work is scheduled to begin in the fall of 2013. The project will be funded by the General Fund and will not severely impact the contingency of the District.

The Food Service Fund struggled with the adoption of the Healthy, Hunger-Free Kids Act. For the 2013-2014 fiscal year, administration will continue to adopt new ideas to increase participation in the program. The District's new Early Childhood Learning Center program was initiated during the 2012-2013 period. Although it fell into deficit during its first year, the program will be self-sustaining in the future and will be considered as a vital partnership with our community.

The 2013-2014 budget adopted in May 2013, is considered adequately funded with a 18.2% contingency balance.

Russell Independent has adopted the motto, "Our Kids...Our District...Our Community". We will continue to focus on offering the best for our children and community. This includes safety as a priority, along with educational excellence and opportunities for competition in both academics and athletics.

Questions regarding this report should be directed to Superintendent M. Sean Horne or to Dennis C. Chambers, CPA, Director of Finance at (606) 836-9679, e-mail at sean.horne@russellind.kyschools.us or dennis.chambers@russellind.kyschools.us, or by mail at 409 Belfont Street, Russell, Kentucky 41169.

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 3,310,361	\$ 135,051	\$ 3,445,412
Receivables (net of allowances for uncollectibles):			
Property taxes	226,750	-	226,750
Other	11,986	1,750	13,736
Intergovernmental - federal	211,456	-	211,456
Inventories	-	17,928	17,928
Capital assets, not being depreciated	460,688	-	460,688
Capital assets, being depreciated, net	20,888,520	163,917	21,052,437
Total assets	<u>25,109,761</u>	<u>318,646</u>	<u>25,428,407</u>
Liabilities			
Accounts payable	74,561	217	74,778
Accrued payroll and employee benefits	149,874	-	149,874
Deferred revenue	183,495	-	183,495
Noncurrent liabilities:			
Portion due or payable within one year:			
Bond obligations	790,000	-	790,000
Notes payable	52,083	-	52,083
Portion due or payable after one year:			
Bond obligations	12,325,000	-	12,325,000
Notes payable	243,086	-	243,086
Accrued sick leave	254,072	-	254,072
KSBIT payable	357,591	-	357,591
Total liabilities	<u>14,429,762</u>	<u>217</u>	<u>14,429,979</u>
Net Position			
Net investment in capital assets	7,939,039	163,917	8,102,956
Restricted for:			
Capital projects	152,705	-	152,705
Other purposes	-	154,512	154,512
Unrestricted	2,588,255	-	2,588,255
Total net position	<u>\$ 10,679,999</u>	<u>\$ 318,429</u>	<u>\$ 10,998,428</u>

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

**RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 11,456,988	\$ 13,697	\$ 999,183	\$ -	\$ (10,444,108)	\$ -	\$ (10,444,108)
Support services:							
Students	707,114	-	3,650	-	(703,464)	-	(703,464)
Instructional staff	1,481,642	-	343,952	-	(1,137,690)	-	(1,137,690)
District administration	772,964	-	-	-	(772,964)	-	(772,964)
School administration	975,442	-	-	-	(975,442)	-	(975,442)
Business and other support services	178,612	-	-	-	(178,612)	-	(178,612)
Operation and maintenance of plant	1,942,572	-	-	-	(1,942,572)	-	(1,942,572)
Student transportation	825,526	-	12,692	-	(812,834)	-	(812,834)
Food service operations	34,170	-	-	-	(34,170)	-	(34,170)
Community services	123,866	-	107,535	-	(16,331)	-	(16,331)
Debt service	490,000	-	-	894,019	404,019	-	404,019
Total governmental activities	18,988,896	13,697	1,467,012	894,019	(16,614,168)	-	(16,614,168)
Business-type activities:							
Food service	1,140,889	386,288	612,207	-	-	(142,394)	(142,394)
Early childhood learning center fund	131,296	76,380	12,898	-	-	(42,018)	(42,018)
Child care fund	43,439	57,823	3,898	-	-	18,282	18,282
Total business-type activities	1,315,624	520,491	629,003	-	-	(166,130)	(166,130)
Total primary government	\$ 20,304,520	\$ 534,188	\$ 2,096,015	\$ 894,019	\$ (16,614,168)	\$ (166,130)	\$ (16,780,298)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 4,801,608	\$ -	\$ 4,801,608
Motor vehicle					555,053	-	555,053
Utilities					783,765	-	783,765
Intergovernmental revenues:							
State					10,768,404	-	10,768,404
Investment earnings					13,946	-	13,946
Gain on disposal of capital assets					1,878	-	1,878
Other local revenues					37,668	-	37,668
Total general revenues					16,962,322	-	16,962,322
Extraordinary item - KSBIT assessment					(357,591)	-	(357,591)
Transfers					(42,018)	42,018	-
Change in net position					(51,455)	(124,112)	(175,567)
Net position, June 30, 2012, as restated					10,731,454	442,541	11,173,995
Net position, June 30, 2013					\$ 10,679,999	\$ 318,429	\$ 10,998,428

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

**RUSSELL INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 3,157,656	\$ -	\$ 152,705	\$ 3,310,361
Due from other funds	27,961	-	-	27,961
Receivables (net of allowances for uncollectibles):				
Taxes - current	220,335	-	-	220,335
Taxes - delinquent	6,415	-	-	6,415
Other	11,986	-	-	11,986
Intergovernmental - Federal	-	211,456	-	211,456
Total assets	<u>\$ 3,424,353</u>	<u>\$ 211,456</u>	<u>\$ 152,705</u>	<u>\$ 3,788,514</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 74,561	\$ -	\$ -	\$ 74,561
Accrued payroll and employee benefits	149,874	-	-	149,874
Due to other funds	-	27,961	-	27,961
Deferred revenue	-	183,495	-	183,495
Total liabilities	<u>224,435</u>	<u>211,456</u>	<u>-</u>	<u>435,891</u>
Fund balances:				
Committed	111,469	-	-	111,469
Restricted	627,036	-	152,705	779,741
Assigned	-	-	-	-
Unassigned	2,461,413	-	-	2,461,413
Total fund balances	<u>3,199,918</u>	<u>-</u>	<u>152,705</u>	<u>3,352,623</u>
Total liabilities and fund balances	<u>\$ 3,424,353</u>	<u>\$ 211,456</u>	<u>\$ 152,705</u>	<u>\$ 3,788,514</u>

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

**RUSSELL INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Fund balances—total governmental funds	\$ 3,352,623
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	21,349,208
Some liabilities, including bonds payable, notes payable, accrued sick leave and KSBIT payable, are not due and payable in the current period and therefore, are not reported in the governmental funds.	<u>(14,021,832)</u>
Net position of governmental activities	<u>\$ 10,679,999</u>

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

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes -				
Property	\$ 4,407,395	\$ -	\$ 394,213	\$ 4,801,608
Motor vehicles	555,053	-	-	555,053
Utilities	783,765	-	-	783,765
Tuition and fees	9,623	4,074	-	13,697
Interest income	13,943	-	3	13,946
Other local revenues	37,668	97,061	-	134,729
Intergovernmental - State	10,768,404	414,924	894,019	12,077,347
Intergovernmental - Indirect federal	-	905,604	-	905,604
Intergovernmental - Direct federal	-	49,423	-	49,423
Total revenues	<u>16,575,851</u>	<u>1,471,086</u>	<u>1,288,235</u>	<u>19,335,172</u>
Expenditures:				
Current:				
Instruction	9,764,834	1,041,012	-	10,805,846
Support services:				
Students	703,224	3,650	-	706,874
Instructional staff	1,137,690	343,952	-	1,481,642
District administration	754,160	-	-	754,160
School administration	970,550	-	-	970,550
Business and other support services	177,894	-	-	177,894
Operation and maintenance of plant	1,842,779	-	-	1,842,779
Student transportation	836,155	12,692	-	848,847
Food service operation	34,170	-	-	34,170
Community services	16,331	107,535	-	123,866
Facilities acquisition and construction	-	-	378,444	378,444
Debt service	49,808	-	1,252,219	1,302,027
Total expenditures	<u>16,287,595</u>	<u>1,508,841</u>	<u>1,630,663</u>	<u>19,427,099</u>
Excess (deficiency) of revenues over expenditures	<u>288,256</u>	<u>(37,755)</u>	<u>(342,428)</u>	<u>(91,927)</u>
Other financing sources (uses):				
Proceeds from sale of equipment	1,878	-	-	1,878
Capital lease proceeds	78,974	-	-	78,974
Transfers in	-	37,755	894,917	932,672
Transfers out	(79,773)	-	(894,917)	(974,690)
Total other financing sources and uses	<u>1,079</u>	<u>37,755</u>	<u>-</u>	<u>38,834</u>
Net change in fund balances	289,335	-	(342,428)	(53,093)
Fund balances, June 30, 2012	<u>2,910,583</u>	<u>-</u>	<u>495,133</u>	<u>3,405,716</u>
Fund balances, June 30, 2013	<u>\$ 3,199,918</u>	<u>\$ -</u>	<u>\$ 152,705</u>	<u>\$ 3,352,623</u>

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

**RUSSELL INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Net change in fund balances - total governmental funds \$ (53,093)

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

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

Capital outlay	636,560	
Depreciation expense	<u>(994,757)</u>	(358,197)

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for accrued sick leave and the KSBIT assessment. (373,218)

Bond and capital lease proceeds are recognized as revenues of current financial resources in the fund financial statements, but are increases in liabilities in the statement of net position. (78,974)

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. 812,027

Change in net position of governmental activities \$ (51,455)

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

**RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013**

	Food Service Fund	ECLC Fund	Child Care Fund	Total Proprietary Funds
Assets				
Current assets:				
Cash and cash equivalents	\$ 73,637	\$ -	\$ 61,414	\$ 135,051
Accounts receivable	1,750	-	-	1,750
Inventories	17,928	-	-	17,928
Total current assets	<u>93,315</u>	<u>-</u>	<u>61,414</u>	<u>154,729</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation	<u>163,917</u>	<u>-</u>	<u>-</u>	<u>163,917</u>
Total noncurrent assets	<u>163,917</u>	<u>-</u>	<u>-</u>	<u>163,917</u>
Total assets	<u>\$ 257,232</u>	<u>\$ -</u>	<u>\$ 61,414</u>	<u>\$ 318,646</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 144	-	\$ 73	\$ 217
Total current liabilities	<u>144</u>	<u>-</u>	<u>73</u>	<u>217</u>
Total liabilities	<u>144</u>	<u>-</u>	<u>73</u>	<u>217</u>
Net Position				
Invested in capital assets	163,917	-	-	163,917
Restricted	93,171	-	61,341	154,512
Total net position	<u>\$ 257,088</u>	<u>\$ -</u>	<u>\$ 61,341</u>	<u>\$ 318,429</u>

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

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Food Service Fund	ECLC Fund	Child Care Fund	Total Proprietary Funds
Operating revenues:				
Lunchroom sales	\$ 384,538	\$ -	\$ -	\$ 384,538
Other revenue	1,750	76,380	57,823	135,953
Total operating revenues	<u>386,288</u>	<u>76,380</u>	<u>57,823</u>	<u>520,491</u>
Operating expenses:				
Salaries and wages	335,191	75,475	23,534	434,200
Employee benefits	136,496	31,619	8,836	176,951
Contract services	14,570	335	11,069	25,974
Materials and supplies	630,243	23,867	-	654,110
Depreciation	24,389	-	-	24,389
Total operating expenses	<u>1,140,889</u>	<u>131,296</u>	<u>43,439</u>	<u>1,315,624</u>
Operating income (loss)	<u>(754,601)</u>	<u>(54,916)</u>	<u>14,384</u>	<u>(795,133)</u>
Nonoperating revenues (expenses) :				
Federal grants	474,629	-	-	474,629
Donated commodities	70,236	-	-	70,236
State grants	67,342	12,898	3,898	84,138
Total nonoperating revenue	<u>612,207</u>	<u>12,898</u>	<u>3,898</u>	<u>629,003</u>
Transfers in	<u>-</u>	<u>42,018</u>	<u>-</u>	<u>42,018</u>
Increase (decrease) in net position	(142,394)	-	18,282	(124,112)
Net position, June 30, 2012, as restated	<u>399,482</u>	<u>-</u>	<u>43,059</u>	<u>442,541</u>
Net position, June 30, 2013	<u>\$ 257,088</u>	<u>\$ -</u>	<u>\$ 61,341</u>	<u>\$ 318,429</u>

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

**RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2013**

	Food Service Fund	ECLC Fund	Child Care Fund	Total Proprietary Funds
Cash flows from operating activities:				
Cash received from:				
Lunchroom sales	\$ 384,538	\$ -	\$ -	\$ 384,538
Other operating revenues	-	76,380	57,857	134,237
Cash paid to/for:				
Payments to suppliers and providers of goods and services	(569,150)	(24,202)	(11,177)	(604,529)
Payments to employees	(415,348)	(94,196)	(28,472)	(538,016)
Net cash provided by (used for) operating activities	<u>(599,960)</u>	<u>(42,018)</u>	<u>18,208</u>	<u>(623,770)</u>
Cash flows from noncapital financing activities:				
Transfers in from other funds	-	42,018	-	42,018
Governmental grants	485,632	-	-	485,632
Net cash provided by noncapital financing activities	<u>485,632</u>	<u>42,018</u>	<u>-</u>	<u>527,650</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(42,095)	-	-	(42,095)
Net cash used for capital and related financing activities	<u>(42,095)</u>	<u>-</u>	<u>-</u>	<u>(42,095)</u>
Net increase (decrease) in cash and cash equivalents	(156,423)	-	18,208	(138,215)
Cash and cash equivalents, June 30, 2012	<u>230,060</u>	<u>-</u>	<u>43,206</u>	<u>273,266</u>
Cash and cash equivalents, June 30, 2013	<u>\$ 73,637</u>	<u>\$ -</u>	<u>\$ 61,414</u>	<u>\$ 135,051</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (754,601)	\$ (54,916)	\$ 14,384	\$ (795,133)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	24,389	-	-	24,389
Donated commodities	70,236	-	-	70,236
On-behalf payments	56,339	12,898	3,898	73,135
Change in assets and liabilities:				
Inventories	5,520	-	-	5,520
Accounts receivable	(1,750)	-	34	(1,716)
Accounts payable	(93)	-	(108)	(201)
Net cash provided by (used for) operating activities	<u>\$ (599,960)</u>	<u>\$ (42,018)</u>	<u>\$ 18,208</u>	<u>\$ (623,770)</u>
Non-cash items:				
Donated commodities	\$ 70,236	\$ -	\$ -	\$ 70,236
On-behalf payments	56,339	12,898	3,898	73,135

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

**RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

	Scholarship Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 121,473	\$ 168,101
Accounts receivable	-	-
Total assets	\$ 121,473	\$ 168,101
 Liabilities		
Accounts payable	\$ -	\$ -
Due to students	-	168,101
Total liabilities	-	168,101
 Net position held in trust	 \$ 121,473	 \$ -

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

**RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Scholarship Funds
Additions -	
Contributions	\$ 9,270
Interest Income	1,663
	10,933
Deductions -	
Benefits paid	13,568
	13,568
Change in Net Position	(2,635)
Net Position June 30, 2012	124,108
Net Position June 30, 2013	\$ 121,473

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

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes -				
Property	\$ 4,205,000	\$ 4,310,000	\$ 4,407,395	\$ 97,395
Motor vehicles	450,000	470,000	555,053	85,053
Utilities	800,000	800,000	783,765	(16,235)
Interest income	10,000	10,000	13,943	3,943
Tuition and fees	-	-	9,623	9,623
Other local revenues	1,645	1,645	37,668	36,023
Intergovernmental - State	7,941,847	7,936,317	8,022,487	86,170
Total revenues	<u>13,408,492</u>	<u>13,527,962</u>	<u>13,829,934</u>	<u>301,972</u>
Expenditures:				
Current:				
Instruction	7,461,971	7,646,472	7,542,441	104,031
Support services:				
Students	609,953	611,997	619,437	(7,440)
Instructional staff	1,056,403	1,113,056	1,036,417	76,639
District administration	738,081	751,681	700,448	51,233
School administration	848,424	957,260	868,843	88,417
Business and other support services	164,301	165,101	159,571	5,530
Operation and maintenance of plant	1,829,840	1,830,864	1,738,730	92,134
Student transportation	665,467	694,708	777,110	(82,402)
Food service operations	41,315	38,985	34,170	4,815
Community services	26,242	29,972	14,703	15,269
Contingency	2,487,687	2,519,641	-	2,519,641
Debt service	49,808	49,808	49,808	-
Total expenditures	<u>15,979,492</u>	<u>16,409,545</u>	<u>13,541,678</u>	<u>2,867,867</u>
Excess (deficiency) of revenues over expenditures	<u>(2,571,000)</u>	<u>(2,881,583)</u>	<u>288,256</u>	<u>3,169,839</u>
Other financing sources (uses):				
Proceeds from sale of equipment	-	-	1,878	1,878
Capital lease proceeds	-	-	78,974	78,974
Transfers out	(29,000)	(29,000)	(79,773)	(50,773)
Total other financing sources and uses	<u>(29,000)</u>	<u>(29,000)</u>	<u>1,079</u>	<u>30,079</u>
Net change in fund balances	(2,600,000)	(2,910,583)	289,335	3,199,918
Fund balances, June 30, 2012	<u>2,600,000</u>	<u>2,910,583</u>	<u>2,910,583</u>	<u>-</u>
Fund balances, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>3,199,918</u>	<u>\$ 3,199,918</u>
Adjustments to Generally Accepted Accounting Principles-				
Intergovernmental State Revenue			2,745,917	
On-behalf payments:				
Instruction			(2,222,393)	
Support Services				
Students			(83,787)	
Instructional Staff			(101,273)	
District Administration			(53,712)	
School Administration			(101,707)	
Business and other support services			(18,323)	
Operation and maintenance of plant			(104,049)	
Student transportation			(59,045)	
Community Services			(1,628)	
Fund Balance, June 30, 2013 (GAAP basis)			<u>\$ 3,199,918</u>	

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

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Student Fees	\$ 5,000	\$ 5,000	\$ 4,074	\$ (926)
Other local revenues	75,500	78,517	97,061	18,544
Intergovernmental - State	416,504	234,011	414,924	180,913
Intergovernmental - Indirect federal	821,545	854,071	905,604	51,533
Intergovernmental - Direct federal	59,034	59,034	49,423	(9,611)
Total revenues	<u>1,377,583</u>	<u>1,230,633</u>	<u>1,471,086</u>	<u>240,453</u>
Expenditures:				
Current:				
Instruction	906,347	878,943	1,041,012	(162,069)
Support services:				
Students	-	-	3,650	(3,650)
Instructional staff	378,043	267,036	343,952	(76,916)
Student transportation	11,555	-	12,692	(12,692)
Community services	108,638	111,654	107,535	4,119
Total expenditures	<u>1,404,583</u>	<u>1,257,633</u>	<u>1,508,841</u>	<u>(251,208)</u>
Excess (deficiency) of revenues over expenditures	<u>(27,000)</u>	<u>(27,000)</u>	<u>(37,755)</u>	<u>(10,755)</u>
Other financing sources (uses):				
Transfers in	27,000	27,000	37,755	10,755
Transfers out	-	-	-	-
Total other financing sources and uses	<u>27,000</u>	<u>27,000</u>	<u>37,755</u>	<u>10,755</u>
Net change in fund balances	-	-	-	-
Fund balances, June 30, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**RUSSELL INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

(1) REPORTING ENTITY

The Russell Independent Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Russell Independent School District (District). The District receives funding from local, state and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The Board, for financial reporting purposes, includes all of the funds and account groups relevant to the operation of the Russell Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

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

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

Russell Independent School District Finance Corporation

On October 30, 1989, the Russell Independent School District Board of Education resolved to authorize the establishment of the Russell Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180), as an agency of the Board for financing the costs of school building facilities. The members of the Russell Independent School District Board of Education also comprise the Corporation's Board of Directors.

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

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

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

Basis of Presentation

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

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

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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

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

I. Governmental Fund Types

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

- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The School Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction expenditures.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Funds (Enterprise Fund)

- (A) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
- (B) The Early Childhood Learning Center (ECLC) Fund is used to account for preschool activities. This is listed as a major fund due to the nature of the activity.
- (C) The Child Care fund is used to account for after school child care activities. This is listed as a major fund due to the nature of the activity.

III. Fiduciary Fund Types

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

The Agency Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

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

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

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

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

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. The assessed value of property upon which the levy for the 2013 fiscal year was based was \$788,425,612.

The tax rates assessed for the year ended June 30, 2013 to finance general fund operations were \$.719 on real estate and \$.719 per \$100 valuation on tangible property.

Taxes are due on October 1 and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2013 were 93% of the tax levy for real and tangible personal property.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2013. Accordingly, no differences

exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements resulting from encumbrances.

Cash and Cash Equivalents

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

Inventories

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

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net 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 are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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

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

Interfund Balances

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

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See Note (12) for these amounts, which were not known by the District at the time the budget was adopted.

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

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

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, all payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

Net Position

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating revenues. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. All other expenses are nonoperating.

Interfund Activity

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

Estimates

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

(3) CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>June 30, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Land	\$ 460,688	\$ -	\$ -	\$ 460,688
Land improvements	1,915,878	49,400	-	1,965,278
Buildings and improvements	21,451,092	6,176,414	-	27,627,506
Technology equipment	2,011,501	147,759	(918)	2,158,342
General equipment	744,901	16,297	-	761,198
Vehicles	1,594,510	78,974	-	1,673,484
Construction in progress	5,832,284	329,718	(6,162,002)	-
Totals at historical cost	<u>34,010,854</u>	<u>6,798,562</u>	<u>(6,162,920)</u>	<u>34,646,496</u>
Less: accumulated depreciation -				
Land improvements	(1,274,262)	(55,321)	-	(1,329,583)
Buildings and improvements	(7,918,025)	(614,920)	-	(8,532,945)
Technology equipment	(1,452,681)	(214,249)	918	(1,666,012)
Vehicles	(1,306,794)	(57,658)	-	(1,364,452)
General equipment	(351,687)	(52,609)	-	(404,296)
Total accumulated depreciation	<u>(12,303,449)</u>	<u>(994,757)</u>	<u>918</u>	<u>(13,297,288)</u>
Governmental Activities Capital Assets-Net	<u>\$ 21,707,405</u>	<u>\$ 5,803,805</u>	<u>\$ (6,162,002)</u>	<u>\$ 21,349,208</u>
<u>Business-Type Activities</u>				
Food service land improvements	\$ 2,350	\$ -	\$ -	\$ 2,350
Food service equipment	537,963	42,095	-	580,058
Technology equipment	33,971	-	-	33,971
Totals at historical cost	<u>574,284</u>	<u>42,095</u>	<u>-</u>	<u>616,379</u>
Less: accumulated depreciation -				
Land improvements	(832)	(118)	-	(950)
Equipment	(405,973)	(20,046)	-	(426,019)
Technology equipment	(21,268)	(4,225)	-	(25,493)
Total accumulated depreciation	<u>(428,073)</u>	<u>(24,389)</u>	<u>-</u>	<u>(452,462)</u>
Business-Type Activities Capital Assets-Net	<u>\$ 146,211</u>	<u>\$ 17,706</u>	<u>\$ -</u>	<u>\$ 163,917</u>

Depreciation expense is allocated to governmental functions as follows:

Instruction	\$	661,317
Student support services		240
District administration		18,804
School administration		4,892
Plant operation and maintenance		253,133
Student transportation		55,653
Business support services		718
	\$	<u>994,757</u>

(4) RETIREMENT PLANS

A. Kentucky Teachers Retirement System:

The District contributes to the Kentucky Teachers Retirement System ("KTRS"), a cost sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education. Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

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

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

The Russell Independent Schools payroll for employees covered under KTRS was \$9,262,701. For the year ended June 30, 2013, the Commonwealth of Kentucky contributed \$1,176,993 to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the years ending June 30, 2011, 2012 and 2013 were \$88,512, \$137,478 and \$138,365, respectively, which represents the required contributions for those employees covered by Federal programs for each year.

B. County Employee's Retirement System:

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

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646.

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to contribute 19.55% of the employee's total compensation. Plan members hired after June 30, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS members and the District are established and may be amended by the CERS Board of Trustees. The District's contributions to CERS for the year ending June 30, 2011, 2012 and 2013, were \$390,637, \$426,427 and \$450,287, respectively, equal to the required contributions for the year.

C. Medical Insurance Plan:

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

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

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 2012-2013 fiscal year.

(5) ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2013, this amount totaled \$254,072 for those employees with five or more years of experience and who have reached the age of 55. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported in the fund financial statements, but is reflected in the statement of net position.

(6) COMMITMENTS AND CONTINGENCIES

The District receives funding from Federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The District at times is subject to certain legal proceedings arising from normal business activities. Administrative officials believe that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements.

(7) CASH AND CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At June 30, 2013, the carrying amounts of the District's deposits were \$3,734,986 and the bank balances were \$4,080,423. Of the total bank balances, \$292,037 was insured by the FDIC, and \$3,788,386 was secured by collateral held by the pledging banks in the District's name.

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

(8) DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make lease payments relating to bonds issued by the Russell Independent School District Finance Corporation aggregating \$19,175,000, and notes issued by the Russell Independent School District to the Kentucky Interlocal School Transportation Association ("KISTA") in the original amount of \$498,696.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2012	\$ 1,780,000	1.15% - 2.40%
2011	5,320,000	1.00% - 4.63%
2010	810,000	2.00% - 4.00%
2009	925,000	1.75% - 3.60%
2006	3,750,000	3.75% - 4.00%
2004	4,615,000	2.50% - 3.75%
2003	1,975,000	3.50% - 3.75%
Various (KISTA)	498,696	1.00% - 4.00%

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

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

<u>Description</u>	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at June 30, 2013</u>
General obligation bonds - \$19,175,000 originally issued with interest rates ranging from 1.00% to 4.63%	\$ 13,885,000	\$ -	\$ (770,000)	\$ 13,115,000
KISTA notes payable	258,222	78,974	(42,027)	295,169
KSBIT liability	-	357,591	-	357,591
Accumulated unpaid sick leave	238,445	15,627	-	254,072
	<u>\$ 14,381,667</u>	<u>\$ 452,192</u>	<u>\$ (812,027)</u>	<u>\$ 14,021,832</u>

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

The bonds may be called prior to maturity at redemption premiums as specified in each issue. Assuming no issues are called prior to scheduled maturity and that the Kentucky School Facilities Construction Commission continues to renew its agreement, the minimum obligations at June 30, 2013 for debt services (principal and interest) are as follows:

Bonds					
Year	Kentucky School Facilities Construction Commission		Russell Independent School District		Total
	Principal	Interest	Principal	Interest	
2014	\$ 233,194	\$ 124,108	\$ 556,806	\$ 333,951	\$ 1,248,059
2015	240,048	117,254	574,952	315,715	1,247,969
2016	247,437	109,865	592,563	296,225	1,246,090
2017	255,630	101,671	569,370	272,744	1,199,415
2018	264,141	93,161	585,859	259,430	1,202,591
2019-23	992,814	341,670	3,202,186	1,032,087	5,568,757
2024-28	895,950	157,044	2,449,050	521,262	4,023,306
2029-31	296,817	27,739	1,158,183	100,217	1,582,956
	<u>\$ 3,426,031</u>	<u>\$ 1,072,512</u>	<u>\$ 9,688,969</u>	<u>\$ 3,131,631</u>	<u>\$ 17,319,143</u>

Notes			
Year	Principal	Interest	Total
2014	\$ 52,083	\$ 8,052	\$ 60,135
2015	45,190	6,571	51,761
2016	43,810	5,270	49,080
2017	37,438	3,960	41,398
2018	31,748	2,886	34,634
2019-23	84,900	4,926	89,826
	<u>\$ 295,169</u>	<u>\$ 31,665</u>	<u>\$ 326,834</u>

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District’s liability would be \$357,591. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014.

(9) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Board Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount

amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District’s liability would be \$357,591. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014.

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.

(10) COBRA

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

(11) TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Matching	\$ 37,755
Operating	FSPK Fund	Debt Service	Debt Service	693,635
Operating	SEEK	Debt Service	Debt Service	201,282
Operating	General	ECLC	Operating	42,018

(12) ON-BEHALF PAYMENTS

For fiscal year 2013, the Commonwealth of Kentucky contributed payments on behalf of the Russell Independent School District as follows:

<u>Plan / Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$ 1,176,993
Health Insurance Plan, Flexible Spending Plan, and Administrative Life Insurance Plan	1,578,786
Technology	63,273
Debt Service	357,302
	<u>\$ 3,176,354</u>

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

(13) NET POSITION RESTATEMENT

The District had inadvertently reported the Child Care Fund as a Fiduciary Fund in previous years. The Child Care Fund should be reported as a business-type activity.

Beginning net position of the business-type activities has been restated as follows:

	Business-Type Activities	
	As Previously Reported	As Restated
Statement of Net Position		
Total assets	\$ 399,719	\$ 442,959
Total liabilities	237	418
Net Position:		
Invested in capital assets, net of related debt	146,211	146,211
Restricted for:		
Other purposes	253,271	296,330
Total net position	<u>\$ 399,482</u>	<u>\$ 442,541</u>

(14) NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 62, *Codification of Accounting and Financial Reporting Guidance*, that incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of GASB No. 62 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the District was not required to change the reporting of current or past transactions.

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, that provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. The requirements of GASB No. 63 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the computation of equity on the Statement of Net Position was changed and equity was retitled as "net position".

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The District has not completed the process of the evaluation of GASB No. 65; however, the District does expect it to have an impact on its future financial statements.

The Governmental Accounting Standards Board (GASB) issued GASB No. 68, *Accounting and Financial Reporting for Pensions*, which changes the way pensions are reported on the financial statements of employers. Employers participating in a multiple-employer cost-sharing plan will be required to report net pension liability on the entity-wide statements for their proportionate share of the liability. Districts will be required to record net pension liability for their share of the liability associated with employees participating in County Employees Retirement System (CERS) as well as any district-sponsored pension plans. There will be little to no impact on the balance sheets of the governmental funds. Additional note disclosures and required supplementary information (RSI) also are addressed in the standard. Kentucky Department of Education will be working with KTRS and Kentucky Retirement Systems in the months ahead to provide guidance for the implementation issues facing school districts. The standard is effective for fiscal year ending June 30, 2015.

SUPPLEMENTAL INFORMATION

**RUSSELL INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013**

	SEEK Fund	FSPK Funds	Construction Fund	Debt Service Funds	Total Non-Major Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ -	\$ 37,651	\$ 115,054	\$ -	\$ 152,705
Total assets	<u>\$ -</u>	<u>\$ 37,651</u>	<u>\$ 115,054</u>	<u>\$ -</u>	<u>\$ 152,705</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Restricted	-	37,651	115,054	-	152,705
Total fund balance	<u>-</u>	<u>37,651</u>	<u>115,054</u>	<u>-</u>	<u>152,705</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 37,651</u>	<u>\$ 115,054</u>	<u>\$ -</u>	<u>\$ 152,705</u>

**RUSSELL INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013**

	SEEK Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES:					
From local sources -					
Property Taxes	\$ -	\$ 394,213	\$ -	\$ -	\$ 394,213
Interest income	-	-	3	-	3
Intergovernmental - State	201,282	335,435	-	357,302	894,019
Total revenues	<u>201,282</u>	<u>729,648</u>	<u>3</u>	<u>357,302</u>	<u>1,288,235</u>
EXPENDITURES:					
Debt service	-	-	-	1,252,219	1,252,219
Facilities acquisition and construction	-	-	378,444	-	378,444
Total expenditures	<u>-</u>	<u>-</u>	<u>378,444</u>	<u>1,252,219</u>	<u>1,630,663</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>201,282</u>	<u>729,648</u>	<u>(378,441)</u>	<u>(894,917)</u>	<u>(342,428)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	-	-	-	894,917	894,917
Operating transfers out	(201,282)	(693,635)	-	-	(894,917)
Total other financing sources (uses)	<u>(201,282)</u>	<u>(693,635)</u>	<u>-</u>	<u>894,917</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	36,013	(378,441)	-	(342,428)
FUND BALANCE June 30, 2012	<u>-</u>	<u>1,638</u>	<u>493,495</u>	<u>-</u>	<u>495,133</u>
FUND BALANCE June 30, 2013	<u>\$ -</u>	<u>\$ 37,651</u>	<u>\$ 115,054</u>	<u>\$ -</u>	<u>\$ 152,705</u>

RUSSELL INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	2003	2004	2006	2009	2010	2011	2012	Totals
	Bond	Bond	Bond	Bond	Bond	Bond	Bond	Debt Service
	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund
REVENUES:								
Intergovernmental - State	\$ -	\$ -	\$ 140,273	\$ 107,050	\$ -	\$ 109,979	\$ -	\$ 357,302
Total revenues	-	-	140,273	107,050	-	109,979	-	357,302
EXPENDITURES:								
Debt service	41,400	541,552	215,224	107,050	34,375	259,050	53,568	1,252,219
Total expenditures	41,400	541,552	215,224	107,050	34,375	259,050	53,568	1,252,219
DEFICIENCY OF REVENUES								
UNDER EXPENDITURES	(41,400)	(541,552)	(74,951)	-	(34,375)	(149,071)	(53,568)	(894,917)
OTHER FINANCING SOURCES (USES):								
Operating transfers in	41,400	541,552	74,951	-	34,375	149,071	53,568	894,917
Total other financing sources (uses)	41,400	541,552	74,951	-	34,375	149,071	53,568	894,917
NET CHANGE IN FUND BALANCE	-	-	-	-	-	-	-	-
FUND BALANCE June 30, 2012	-	-	-	-	-	-	-	-
FUND BALANCE June 30, 2013	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balance June 30, 2012	Receipts	Disbursements	Cash Balance June 30, 2013	Accounts Receivable	Accounts Payable	Deposits Held in Custody for Students June 30, 2013
Russell High School	\$ 98,147	\$ 390,418	\$ 405,256	\$ 83,309	\$ -	\$ -	\$ 83,309
Russell Middle School	40,522	165,083	166,985	38,620	-	-	38,620
Russell Primary School	35,232	54,750	60,028	29,954	-	-	29,954
Russell-McDowell Intermediate School	13,976	28,262	26,020	16,218	-	-	16,218
	<u>\$ 187,877</u>	<u>\$ 638,513</u>	<u>\$ 658,289</u>	<u>\$ 168,101</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 168,101</u>

**RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
RUSSELL HIGH SCHOOL ACTIVITY AND SCHOLARSHIP FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balances June 30, 2012	Receipts	Disbursements	Cash Balances June 30, 2013	Accounts Receivable (Accounts Payable)	Cash and Deposits Held in Custody For Students June 30, 2013
Activity Funds:						
Academic Team	\$ 1,622	\$ 1,494	\$ (385)	\$ 2,731	\$ -	\$ 2,731
AP Biology / AP Chemistry	334	-	(334)	-	-	-
Appalachian Trail	426	-	-	426	-	426
Archery	-	5,183	(5,183)	-	-	-
Art/ JR Grizzle	28	2,246	(2,184)	90	-	90
Arts & Humanities	-	213	(213)	-	-	-
Athletics	-	64,438	(64,438)	-	-	-
Band	55	-	-	55	-	55
Baseball	33	10,134	(10,167)	-	-	-
Beta Club	1,442	8,813	(9,649)	606	-	606
Bio Tech Grant	3,000	-	-	3,000	-	3,000
Boys Basketball	-	30,180	(30,180)	-	-	-
Boys Basketball Camp	1,034	6,835	(7,428)	441	-	441
Boys Golf	-	4,476	(4,476)	-	-	-
Boys Soccer	-	4,408	(4,408)	-	-	-
Boys Tennis	-	1,272	(1,272)	-	-	-
Boys Tennis Camp	315	-	(177)	138	-	138
Boys Track	-	738	(738)	-	-	-
Boys/Girls Basketball Camp	-	5,280	(5,280)	-	-	-
Boys/Girls State	100	-	-	100	-	100
Boys/Girls Swimming	-	4,123	(4,123)	-	-	-
Boys/Girls Track Camp	803	1,800	(2,240)	363	-	363
Choir	3,457	1,400	(2,187)	2,670	-	2,670
Cross County	-	3,174	(3,174)	-	-	-
Downs Syndrome	-	551	(294)	257	-	257
Ed Enhancement	6	39,902	(24,079)	15,829	-	15,829
English	67	-	(32)	35	-	35
Faculty Lounge	182	470	(638)	14	-	14
FCA/CADS	586	33	(619)	-	-	-
FHA/FCCLA	539	890	(601)	828	-	828
Football	65	53,212	(53,277)	-	-	-
Foreign Language	17	-	-	17	-	17
French Club	52	-	-	52	-	52
General Fund	360	17,178	(10,239)	7,299	-	7,299
Girls Basketball	-	12,293	(12,293)	-	-	-
Girls Basketball Camp	1,807	571	(211)	2,167	-	2,167
Girls Golf	-	1,666	(1,666)	-	-	-
Girls Soccer	-	7,603	(7,603)	-	-	-
Girls Tennis	-	2,670	(2,670)	-	-	-
Girls Tennis Camp	873	7	(250)	630	-	630
Girls Track	-	1,005	(1,005)	-	-	-
Home Ec. / McConda	467	-	(467)	-	-	-
Home Ec. / Salyer	4,195	2,235	(3,754)	2,676	-	2,676
International Club	42	-	-	42	-	42
Journalism	262	-	-	262	-	262
Key Club	2,433	630	(656)	2,407	-	2,407
Latin Club	4,142	4,963	(5,047)	4,058	-	4,058
Lexington A-List Grant	3	-	(3)	-	-	-
Library	83	-	(69)	14	-	14
Literary Society	141	210	-	351	-	351
Math	101	-	-	101	-	101
National Honor Society	814	-	(85)	729	-	729
PE/Athletic Grant	8	-	(8)	-	-	-

**RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
RUSSELL HIGH SCHOOL ACTIVITY AND SCHOLARSHIP FUNDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balances June 30, 2012	Receipts	Disbursements	Cash Balances June 30, 2013	Accounts Receivable (Accounts Payable)	Cash and Deposits Held in Custody For Students June 30, 2013
Peer to Peer	161	-	(92)	69	-	69
Prom	967	8,451	(9,160)	258	-	258
Revilonian	11,889	12,214	(11,757)	12,346	-	12,346
Science - Aldrich	1,166	410	(286)	1,290	-	1,290
Science - Barnett	6,024	890	(2,837)	4,077	-	4,077
Science - House	711	400	(603)	508	-	508
Science - V Stevens	4	830	(247)	587	-	587
Science - Abbott	1,314	650	(441)	1,523	-	1,523
Science - Hill	1,799	770	(1,000)	1,569	-	1,569
Science Olympiad	4,621	100	(516)	4,205	-	4,205
Science/GE Star Award	500	-	-	500	-	500
Senior Class	115	50	(165)	-	-	-
Senior Salute	2,509	-	(1,500)	1,009	-	1,009
Service Learning Grant	152	-	-	152	-	152
Social Studies	43	323	(323)	43	-	43
Softball	-	5,614	(5,614)	-	-	-
Spanish Honor Society	75	25	-	100	-	100
Special Ed	3	30	(29)	4	-	4
Speech and Drama	517	793	(637)	673	-	673
Sports Medicine Training	100	-	(100)	-	-	-
Sports Medicine	-	1,447	(1,447)	-	-	-
Starbucks Volunteer	1,000	-	-	1,000	-	1,000
Student Government	1,224	4,160	(3,964)	1,420	-	1,420
Testing	4,417	20,330	(21,167)	3,580	-	3,580
Trim Fees	28,942	26,081	(55,023)	-	-	-
Volleyball	-	3,554	(3,554)	-	-	-
Youth Literacy Grant	-	1,000	(992)	8	-	8
	<u>\$ 98,147</u>	<u>\$ 390,418</u>	<u>\$ (405,256)</u>	<u>\$ 83,309</u>	<u>\$ -</u>	<u>\$ 83,309</u>
Scholarship Funds:						
Barbara Green Scholarship	4,047	22	-	4,069	-	-
Bennett Lake Memorial Scholarship	25,266	1,415	(87)	26,594	-	-
Beta Club Scholarship	1,366	11	(250)	1,127	-	-
Cameron Weis	11,093	8	(500)	10,601	-	-
Class of 1993	500	-	-	500	-	-
Clear Channel	4,000	2,500	(3,700)	2,800	-	-
Doris Webb Scholarship	625	-	-	625	-	-
Earl Mittendorf Scholarship	45,192	94	(2,500)	42,786	-	-
Eliza McKnight Fund	1,597	58	(500)	1,155	-	-
Hyatt Ward Scholarship	189	-	-	189	-	-
Ledford Scholarship	-	500	-	500	-	-
Marv Meredith	9,074	15	(500)	8,589	-	-
Mark & Teresa Stone	5,800	-	(1,000)	4,800	-	-
Pepsi-Cola Scholarship	1,500	1,000	-	2,500	-	-
Russell Independent Scholarship	5,863	5,234	(3,500)	7,597	-	-
Russell Scholarship	31	-	(31)	-	-	-
Travis Roark Memorial Scholarship	1,385	-	-	1,385	-	-
Una Fern Menshouse Scholarship	6,580	76	(1,000)	5,656	-	-
	<u>\$ 124,108</u>	<u>\$ 10,933</u>	<u>\$ (13,568)</u>	<u>\$ 121,473</u>	<u>\$ -</u>	<u>\$ -</u>

**RUSSELL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Agriculture</u>				
Passed through State Department of Education:				
Child Nutrition cluster:				
Cash Assistance				
National School Lunch Program	10.555	7750002-12	\$ -	\$ 57,567
National School Lunch Program	10.555	7750002-13	-	289,504
National School Breakfast Program	10.553	7760005-12	-	22,079
National School Breakfast Program	10.553	7760005-13	-	105,479
				<u>474,629</u> *
Passed through State Department of Agriculture:				
Non-Cash Assistance (Food Distribution)				
National School Lunch Program	10.555	057502-02	-	70,236
Total U.S. Department of Agriculture				<u>544,865</u>
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title I - Grants to Local Educational Agencies	84.010	3100002-11	350,732	61,081
Title I - Grants to Local Educational Agencies	84.010	3100002-12	324,465	283,508
				<u>344,589</u> *
Special Education Cluster (IDEA):				
Special Education - Grants to States	84.027	3810002-11	402,253	37,790
Special Education - Grants to States	84.027	3810002-12	407,373	372,064
Special Education - Preschool Grants	84.173	3800002-12	17,754	17,754
				<u>427,608</u>
Education Jobs Fund ARRA	84.410	EJOB00-10	485,075	3,414
				<u>3,414</u>
Improving Teacher Quality State Grants	84.367	3230002-11	85,246	39,477
Improving Teacher Quality State Grants	84.367	3230002-12	84,527	69,323
				<u>108,800</u>
Vocational Education - Basic Grants to States	84.048	4621332-13	5,809	5,809
				<u>5,809</u>
Race to the Top	84.413A	4521	14,143	5,546
				<u>5,546</u>
Passed through University of Kentucky:				
Reading Recovery: Scaling Up What Works	84.411A	4913	9,250	7,117
Reading Recovery: Scaling Up What Works	84.411A	4912	12,000	2,721
				<u>9,838</u>
Total U.S. Department of Education				<u>905,604</u>
<u>U.S. Department of Defense</u>				
Direct Programs -				
Basic, Applied, and Advanced Research in Science and Engineering	12.630	5043	59,034	49,423
Total U.S. Department of Defense				<u>49,423</u>
Total Expenditures of Federal Awards				<u>\$ 1,499,892</u>

*Denotes major program.

**RUSSELL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2013, the District had total inventory of \$ 17,928.



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Russell independent School District (the "District") as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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 entity'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.

Kelley, Aulourey + Company, PSC

October 15, 2013



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Russell Independent 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 the District's major federal programs for the year ended June 30, 2013. Russell Independent 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 Independent 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 audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. 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 Independent 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 Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of 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.

Report on Internal Control Over Compliance

Management of Russell Independent 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal 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 Independent 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 a 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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.

Kelley, Halloran & Company, PSC

October 15, 2013

**RUSSELL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

(A) SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified _____ yes x none reported

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

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified _____ yes x none reported

Type of audit 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 x no

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2013:

Child Nutrition Cluster (10.553 and 10.555)
Title I, Grants to Local Agencies (84.010)

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

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

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

None noted in the current year.

(C) FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There were no findings in the current year.

**RUSSELL INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no prior year audit findings.

**RUSSELL INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2013**

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



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

In planning and performing our audit of the financial statements of Russell Independent School District (the "District") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion of 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.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated October 15, 2013, on the financial statements of the District.

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

Kelley, Galloway & Company, PSC

October 15, 2013

RUSSELL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

FOR THE YEAR ENDED JUNE 30, 2013

Fundraiser Documentation - Russell Middle School and Russell McDowell Intermediate School

Condition: We noted that fundraising activities were not monitored using the *Fund Raiser Approval (Form F-SA-2A)* and *Fund Raiser Worksheet (Form F-SA-2B)*.

Criteria for Condition: These forms are required to be completed for each school sponsored-fundraising activity undertaken under the *2008 Redbook*. The *2013 Redbook* also retains this requirement.

Cause of Condition: This matter resulted from inadvertent oversight.

Effect of Condition: Noncompliance with *2013 Redbook* provisions and lack of adequate documentation for fundraising activities.

Recommendation for Correction: We recommend that the proper forms be used to account for all school-sponsored fundraising activities.

Management Response: The District administration reiterated the requirement to each school's responsible party. Fundraising forms will be completed in accordance with the 2013 Redbook.

Athletic Gate Receipts - Russell Middle School and Russell High School

Condition: We noted that the *Requisition and Report of Ticket Sales (Form F-SA-1)* is not being completed correctly. While all amounts received did reconcile to the number of tickets sold, we noted several instances in which the form was not signed by each of the following individuals; the person in charge of sales, the ticket taker and the ticket seller. In most of these instances, the same person signed as being both the ticket taker and the ticket seller. Additionally, we noted several instances in which the amount of change given and/or received was left blank. Also, we noted several instances in which the individuals performing ticket duties were paid from the proceeds of gate receipts instead of being paid with a separate check.

Criteria for Condition: The *Requisition and Report of Ticket Sales (Form F-SA-1)* is required to be properly completed under the *2008 Redbook*. This includes the requirement that the form be fully and properly completed. Additionally, the ticket taker and ticket seller are required to be separate individuals. Likewise, payments for ticket related duties are required to be made by check. The *2013 Redbook* retains these requirements and implements several new provisions.

Cause of Condition: This matter resulted from personnel being unaware of the requirements.

Effect of Condition: Noncompliance with *2008 Redbook* provisions and inadequate segregation of duties over athletic gate receipt collection.

Recommendation for Correction: We recommend that additional training be provided to responsible staff on *2013 Redbook* provisions.

Management Response: The District administration communicated to each school's responsible party the findings related to Form F-SA-1. The Form will be completely and appropriately filled

out by required personnel, including the reconciliation of change. Administration will review the forms to make sure they are completed accurately. In adoption of the 2013 Redbook, two separate individuals are responsible for ticket sales and ticket taking at all ticketed events. As administration was informed of the type of payment to those performing ticket taking duties, the action was immediately addressed and prohibited. The administration has informed personnel that payment of duties is by accounts payable or activity fund check for an independent contractor, or must be entered and paid by the payroll department of the District. Administration will monitor school transactions to ensure expenditures are made in accordance with 2013 Redbook standards.

Title I - Parent Involvement

Condition: We noted that some schools operating a school-wide Title I program do not have parent involvement polices. Additionally, we noted that the annual parent survey was not performed.

Criteria for Condition: Each school operating a school-wide program is required to have a parent involvement policy, which must be annually evaluated for adequacy. Also, a parent survey is required to be completed annually.

Cause of Condition: This matter resulted from Title I personnel being unaware of the requirements.

Effect of Condition: Noncompliance with Title I requirements.

Recommendation for Correction: We recommend that additional training be provided to responsible Title I staff regarding parent involvement activities.

Management Response: The District will have parent involvement policies and will perform the required annual parent survey as applicable.

Mr. Dennis C. Chambers, CPA, Director of Finance is responsible for implementation of the corrective action plan for the above conditions which will be implemented immediately.