

**RUSSELL COUNTY SCHOOL DISTRICT
AUDIT REPORT
YEAR ENDED JUNE 30, 2014**

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October 24, 2014

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

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 Russell County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Russell County School 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, *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Russell County School District as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note A to the financial statements, in 2014, the Russell County School District adopted new accounting guidance, *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 4 through 10 and 37 and 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Russell County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 2014, on our consideration of Russell County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Russell County School District's internal control over financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

**RUSSELL COUNTY PUBLIC SCHOOL DISTRICT – Jamestown, KY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

As management of the Russell County 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, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The June 30, 2014 cash balance for the District was \$12,607,973 million, as compared with the beginning cash balance of \$1,417,668 million. The ending cash balance consists of General Fund of \$2,431,410, Special Revenue of \$15,185, Capital Outlay of \$792, Building (FSPK) Fund of \$6,759, Construction Fund of \$9,992,292, and Food Service of \$161,535.
- District-wide net position increased \$956,147 during the 2014 fiscal year. Total long-term obligations had a net increase of \$9,867,280.
- The General Fund had \$22.3 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. There were \$22.1 million in General Fund expenditures.
- General Fund revenue decreased \$150,333 from last fiscal year and General Fund expenses increased \$1,046,332.
- The financial statements reflect revenues of \$5,161,880 from the state on-behalf of District employees for retirement contributions, health insurance, administration fees, debt service and technology with a like amount of expenses recorded.

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

District-wide financial statements

The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net 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 district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 11-12 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 funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our 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 13-20 of this report.

Notes to the financial statements

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

The notes to the financial statements can be found on pages 21-36 of this report.

DISTRICT-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 and deferred outflows exceeded liabilities and deferred inflows by \$19.9 million as of June 30, 2014.

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) 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 for the period ending June 30, 2014 and June 30, 2013

A comparison of June 30, 2014 and June 30, 2013 government wide net position is as follows:

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$ 13,660,251	\$ 2,383,772	\$ 194,730	\$ 197,459	\$ 13,854,981	\$ 2,581,231
Capital Assets	42,732,018	42,389,584	874,924	953,166	43,606,942	43,342,750
Deferred Outflows	946,640				946,640	
Total Assets and Deferred Outflows	<u>57,338,909</u>	<u>44,773,356</u>	<u>1,069,654</u>	<u>1,150,625</u>	<u>58,408,563</u>	<u>45,923,981</u>
Current Liabilities	4,129,408	2,465,727	802	122	4,130,208	2,465,849
Non-Current Liabilities	34,417,739	24,442,959	-	-	34,417,739	24,442,959
Total Liabilities	<u>38,547,147</u>	<u>26,908,686</u>	<u>802</u>	<u>122</u>	<u>38,547,949</u>	<u>26,908,808</u>
Net Position						
Investment in capital assets (net of related debt)	7,324,290	17,197,600	874,924	953,166	8,199,214	18,150,766
Restricted	9,213,555	75,257	193,928	-	9,407,483	75,257
Unrestricted	2,253,917	591,813	-	197,337	2,253,917	789,150
Total Net Position	<u>\$ 18,791,762</u>	<u>\$ 17,864,670</u>	<u>\$ 1,068,852</u>	<u>\$ 1,150,503</u>	<u>\$ 19,860,614</u>	<u>\$ 19,015,173</u>

The following table presents changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
REVENUES						
Program revenues						
Charges for services	\$ 16,629	\$ 25,779	\$ 226,540	\$ 463,490	\$ 243,169	\$ 489,269
Operating grants and contributions	3,545,295	10,501,873	1,918,214	1,676,665	5,463,509	12,178,538
Capital grants	331,412	331,252			331,412	331,252
General revenues						
Property taxes	5,137,087	5,007,378			5,137,087	5,007,378
Motor vehicle taxes	631,755	590,656			631,755	590,656
Utility Taxes	1,295,492	1,240,219			1,295,492	1,240,219
Other taxes	124,358				124,358	
Investment earnings	50,922	27,811	1,217	2,006	52,139	29,817
State and formula grants	17,373,217	11,503,904			17,373,217	11,503,904
Miscellaneous	187,549	254,350	6,746		194,295	254,350
Total revenues	<u>28,693,716</u>	<u>29,483,222</u>	<u>2,152,717</u>	<u>2,142,161</u>	<u>30,846,433</u>	<u>31,625,382</u>
EXPENSES						
Program Activities						
Instructional	16,612,147	15,827,704			16,612,147	15,827,704
Student support	1,731,246	1,870,691			1,731,246	1,870,691
Instructional staff Support	1,081,966	1,198,735			1,081,966	1,198,735
District administrative support	772,753	601,653			772,753	601,653
School administrative support	1,296,215	1,435,627			1,296,215	1,435,627
Business support	826,400	782,116			826,400	782,116
Plant operations and maintenance	1,972,462	1,997,194			1,972,462	1,997,194
Student transportation	2,122,205	2,022,388			2,122,205	2,022,388
Community service activities	9,405	340,161			9,405	340,161
Other	221,370	3,700			221,370	3,700
Interest costs	1,009,749	1,094,696			1,009,749	1,094,696
Business-type Activities						
Food service			2,234,368	2,231,266	2,234,368	2,231,266
Total expenses	<u>27,655,918</u>	<u>27,174,665</u>	<u>2,234,368</u>	<u>2,231,266</u>	<u>29,890,286</u>	<u>29,405,931</u>
Increase (decrease) in net position	<u>\$ 1,037,798</u>	<u>\$ 2,308,557</u>	<u>\$ (81,651)</u>	<u>\$ (89,105)</u>	<u>\$ 956,147</u>	<u>\$ 2,219,452</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2014 and 2013 were \$5,161,880 and \$5,031,511 respectively.

Total revenue decreased \$617,735 and expenses increased \$290,061.

Governmental Activities

For the governmental program expenses instructional expenses comprise 61% of total expenses, support services equate to 36%, and interest and other expenses make up the remaining 3% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Instructional	\$ 16,612,147	\$ 15,827,704	\$ 13,961,256	\$ 7,850,800
Support Services	9,803,247	9,908,404	8,892,214	7,689,921
Other	19,344	340,161	19,344	7,896
Interest Costs	<u>1,009,749</u>	<u>1,094,696</u>	<u>678,337</u>	<u>763,444</u>
Total Expenses	<u>\$ 27,444,487</u>	<u>\$ 27,170,965</u>	<u>\$ 23,551,151</u>	<u>\$ 16,312,061</u>

Business-Type Activities

The business type activities at the District consist of Food Service. This program had total revenues of \$2,152,717 and expenses of \$2,234,368 for fiscal year 2014. These revenues were made up of \$226,540 charges for services, \$1,918,214 federal and state operating grants, \$1,217 earnings on investments and \$6,746 miscellaneous. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

The School District's Funds

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenue for all governmental funds for 2014 was \$28,693,716 and expenditures were \$29,811,844. The most significant net change in fund balance was the increase in the construction fund balance which is due to the issuance of \$10,875,000 in construction bonds for the high school renovation project.

General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The General Fund had budgeted revenues of \$17,000,000 with actual results being \$23,077,113. Budgeted expenditures were \$19,000,000 compared to actual expenditures of \$22,323,448. The most significant causes of the variance between budget and actual revenue were the state on-behalf payments in the amount of \$4,664,742 and state revenues in excess of budgeted revenues of \$5,052,307. The most significant cause of the expenditures being over budget was the state on-behalf payments noted above. On-behalf payments were not budgeted.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District has adopted a budget for fiscal year 2014-2015 with an approximate 3.5% contingency.

Significant Board action that impacts the finances includes the Board's salary schedules which were increased by 1% 2013-2014 school year as mandated by the State. The State increased the SEEK base from \$3,827 to \$3,911 for the FY 2015. The increase in SEEK base and little change in pupil count results in reduced SEEK funding of roughly \$490,000 for FY 2015.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2014 fiscal year, the District had invested \$43,606,942 in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net increase of \$264,192. Depreciation expense for the year was \$1,478,312 and capital additions were \$2,089,026.

	Governmental		Business - Type		Total Primary Government	
	Activities (Net of Depreciation)		Activities (Net of Depreciation)		(Net of Depreciation)	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,033,505	\$1,038,022	\$ -	\$ -	\$ 1,033,505	\$ 1,038,022
Construction in Progress	1,918,471	249,474			1,918,471	249,474
Land Improvements	123,731	157,817	-	-	123,731	157,817
Buildings and Improvements	38,375,757	39,768,157	639,515	659,845	39,015,272	40,428,002
Technology	171,603	164,772	9,533	14,760	181,136	179,532
Vehicles	912,712	831,694	-	-	912,712	831,694
General Equipment	196,239	179,648	225,876	278,561	422,115	458,209
Total	\$42,732,018	\$42,389,584	\$ 874,924	\$ 953,166	\$ 43,606,942	\$ 43,342,750

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	2014	2013	2014	2013	2014	2013
Beginning Balance	\$ 42,389,584	\$ 43,533,524	\$ 953,165	\$ 1,035,930	\$ 43,342,750	\$ 44,569,454
Additions	2,088,579	287,543	447		2,089,026	287,543
Retirements	(346,522)	(661)			(346,522)	(661)
Depreciation	(1,399,624)	(1,430,822)	(78,688)	(82,765)	(1,478,313)	(1,513,587)
Ending Balance	\$ 42,732,017	\$ 42,389,584	\$ 874,924	\$ 953,165	\$ 43,606,941	\$ 43,342,749

Long-Term Debt

The District made scheduled bond principal payments in the amount of \$1,570,000. The District issued \$10,875,000 in new revenue bonds to finance the renovation project for Russell County High School. The District made scheduled capital lease payments of \$260,424 changing the District's capital lease obligations from \$1,173,152 to \$912,728.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director at (270) 343-3191.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	12,446,438	161,535	12,607,973
Accounts Receivable:			
Taxes - Current	187,308		187,308
Taxes - Delinquent	17,075		17,075
Accounts	18,688		18,688
Intergovernmental - State	288,291		288,291
Intergovernmental - Federal	702,451		702,451
Inventories for Consumption		33,195	33,195
Total Current Assets	13,660,251	194,730	13,854,981
Noncurrent Assets - Note G			
Land	1,033,505		1,033,505
Construction In Progress	1,918,471		1,918,471
Buildings & Improvements	53,623,619		53,623,619
Furniture & Equipment	7,251,910	1,928,460	9,180,370
Less: Accumulated Depreciation	(21,095,487)	(1,053,536)	(22,149,023)
Total Noncurrent Assets	42,732,018	874,924	43,606,942
TOTAL ASSETS	56,392,269	1,069,654	57,461,923
Deferred Outflows on Bond Refundings	946,640	0	946,640
TOTAL ASSETS AND DEFERRED OUTFLOWS	57,338,909	1,069,654	58,408,563
LIABILITIES:			
Current Liabilities:			
Accounts Payable	798,138	802	798,940
Accrued Salaries & Sick Leave - Note A	128,217		128,217
Advances from Grantors	1,005,927		1,005,927
Bond Obligations - Note E	1,630,000		1,630,000
Capital Lease Obligation - Note F	239,677		239,677
Accrued Interest Payable	327,449		327,449
Total Current Liabilities	4,129,408	802	4,130,210
Noncurrent Liabilities:			
Bond Obligations - Note E	32,865,000		32,865,000
Capital Lease Obligation - Note F	673,051		673,051
KSBIT Assessment	3,700		3,700
Deferred Gain on QZAB	107,500		107,500
Accrued Sick Leave - Note A	768,488		768,488
Total Noncurrent Liabilities	34,417,739		34,417,739
TOTAL LIABILITIES	38,547,147	802	38,547,949
NET POSITION:			
Net Investment in Capital Assets	7,324,290	874,924	8,199,214
Restricted for:			
Capital Projects	9,213,555		9,213,555
Other Purposes		193,928	193,928
Unrestricted	2,253,917		2,253,917
TOTAL NET POSITION	18,791,762	1,068,852	19,860,614
TOTAL LIABILITIES AND NET POSITION	57,338,909	1,069,654	58,408,563

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

FUNCTION/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
GOVERNMENTAL ACTIVITIES:							
Instructional	16,612,147	4,438	2,646,453		(13,961,256)		(13,961,256)
Support Services:							
Student Support Services	1,731,246		74,759		(1,656,487)		(1,656,487)
Staff Support Services	1,081,966		403,236		(678,730)		(678,730)
District Administration	772,753				(772,753)		(772,753)
School Administration	1,296,215				(1,296,215)		(1,296,215)
Business Support Services	826,400		71,155		(755,245)		(755,245)
Plant Operation & Maintenance	1,972,462		42,147		(1,930,315)		(1,930,315)
Student Transportation	2,122,205	12,191	307,545		(1,802,469)		(1,802,469)
Community Service Operations	9,405				(9,405)		(9,405)
Facilities Acquisition & Construction	9,939				(9,939)		(9,939)
Interest on Long-Term Debt	1,009,749			331,412	(678,337)		(678,337)
TOTAL GOVERNMENTAL ACTIVITIES	27,444,487	16,629	3,545,295	331,412	(23,551,151)		(23,551,151)
BUSINESS-TYPE ACTIVITIES:							
Food Service	2,234,368	226,540	1,918,214			(89,614)	(89,614)
TOTAL BUSINESS-TYPE ACTIVITIES	2,234,368	226,540	1,918,214	0	0	(89,614)	(89,614)
TOTAL SCHOOL DISTRICT	29,678,855	243,169	5,463,509	331,412	(23,551,151)	(89,614)	(23,640,765)
GENERAL REVENUES:							
Taxes:							
Property					5,137,087		5,137,087
Motor Vehicle					631,755		631,755
Utility					1,295,492		1,295,492
Other					124,358		124,358
State Aid - Formula Grants					17,373,217		17,373,217
Investment Earnings					50,922	1,217	52,139
Miscellaneous					187,549	6,746	194,295
SPECIAL ITEMS:							
Gain(Loss) Sale of Assets					(211,431)		(211,431)
Loss Compensation							0
TOTAL GENERAL & SPECIAL					24,588,949	7,963	24,596,912
CHANGE IN NET POSITION					1,037,798	(81,651)	956,147
NET POSITION - BEGINNING OF YEAR, AS RESTATED - NOTE T					17,753,964	1,150,503	18,904,467
NET POSITION - ENDING					18,791,762	1,068,852	19,860,614

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	GENERAL FUND	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	2,431,410	15,185	9,992,292	7,551	12,446,438
Accounts Receivable:					
Taxes - Current	187,308				187,308
Taxes - Delinquent	17,075				17,075
Accounts	18,688				18,688
Intergovernmental - State		288,291			288,291
Intergovernmental - Federal		702,451			702,451
TOTAL ASSETS	<u>2,654,481</u>	<u>1,005,927</u>	<u>9,992,292</u>	<u>7,551</u>	<u>13,660,251</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	11,850		786,288		798,138
Accrued Salaries & Sick Leave	33,947				33,947
Advances From Grantors		1,005,927			1,005,927
Total Liabilities	<u>45,797</u>	<u>1,005,927</u>	<u>786,288</u>	<u>0</u>	<u>1,838,012</u>
Fund Balance:					
Restricted for:					
Capital Projects			9,206,004	7,551	9,213,555
Assigned for:					
Purchase Obligations	18,161				18,161
Unassigned Fund Balance	2,590,523				2,590,523
Total Fund Balance	<u>2,608,684</u>	<u>0</u>	<u>9,206,004</u>	<u>7,551</u>	<u>11,822,239</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>2,654,481</u>	<u>1,005,927</u>	<u>9,992,292</u>	<u>7,551</u>	<u>13,660,251</u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSTION
FOR THE YEAR ENDED JUNE 30, 2014

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

TOTAL GOVERNMENTAL FUND BALANCE		11,822,239
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	63,827,505	
Accumulated Depreciation	<u>(21,095,487)</u>	42,732,018
Deferred Outflows on Bond Refundings		946,640
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(34,495,000)	
Capital Lease Obligation	(912,728)	
Accrued Interest on Bonds	(327,449)	
KSBIT Assessment	(3,700)	
Deferred Gain on QZAB	(107,500)	
Accrued Sick Leave	<u>(862,758)</u>	<u>(36,709,135)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>18,791,762</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	GENERAL	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes:					
Property	3,496,399			1,640,688	5,137,087
Motor Vehicle	631,755				631,755
Utility	1,295,492				1,295,492
Other	124,358				124,358
Earnings on Investments	40,492	490	9,940		50,922
Intergovernmental - State	16,269,307	715,054		1,435,322	18,419,683
Intergovernmental - Federal	337,716	2,492,525			2,830,241
Other Sources	140,381	63,797			204,178
TOTAL REVENUES	22,335,900	3,271,866	9,940	3,076,010	28,693,716
EXPENDITURES:					
Instructional	12,975,582	2,580,935			15,556,517
Support Services:					
Student Support Services	1,658,053	72,908			1,730,961
Staff Support Services	688,255	393,253			1,081,508
District Administration	764,111				764,111
School Administration	1,295,762				1,295,762
Business Support Services	757,007	69,393			826,400
Plant Operation & Maintenance	1,910,272	41,104			1,951,376
Student Transportation	1,929,596	299,932			2,229,528
Central Office					0
Community Service Operations	8,859				8,859
Facilities Acquisition & Construction			1,678,936		1,678,936
Debt Service:					
Principal	170,185			1,660,239	1,830,424
Interest	20,781			836,681	857,462
TOTAL EXPENDITURES	22,178,463	3,457,525	1,678,936	2,496,920	29,811,844
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	157,437	(185,659)	(1,668,996)	579,090	(1,118,128)
OTHER FINANCING SOURCES(USES):					
Proceeds from Sale of Bonds			10,875,000		10,875,000
Proceeds from Sale of Assets	135,091				135,091
Operating Transfers In - Note O	606,122	144,985		2,164,495	2,915,602
Operating Transfers Out - Note O	(144,985)			(2,770,617)	(2,915,602)
TOTAL OTHER FINANCING SOURCES	596,228	144,985	10,875,000	(606,122)	11,010,091
NET CHANGE IN FUND BALANCES	753,665	(40,674)	9,206,004	(27,032)	9,891,963
FUND BALANCES - BEGINNING	1,855,019	40,674	0	34,583	1,930,276
FUND BALANCES - ENDING	2,608,684	0	9,206,004	7,551	11,822,239

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY 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, 2014

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

NET CHANGES - GOVERNMENTAL FUNDS		9,891,963
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(1,399,624)	
Capital Outlays	<u>2,088,579</u>	688,955
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.</p>		
Principal Paid	1,830,424	
Bond Proceeds	<u>(10,875,000)</u>	(9,044,576)
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Amortization-Deferred Outflow on Bond Refundings	(113,822)	
Accrued Interest Payable	(51,903)	
Amortization - Deferred Gain on QZAB	13,438	
Accrued Sick Leave	<u>265</u>	(152,022)
<p>In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net assets differs from change in fund balances by the cost of the asset sold.</p>		
Gain (Loss)- Sale of Assets		<u>(346,522)</u>
CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u><u>1,037,798</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	ENTERPRISE FUNDS
	FOOD SERVICE
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	161,535
Inventories for Consumption	33,195
Total Current Assets	194,730
Noncurrent Assets:	
Furniture & Equipment	1,928,460
Less: Accumulated Depreciation	(1,053,536)
Total Noncurrent Assets	874,924
TOTAL ASSETS	1,069,654
LIABILITIES:	
Current Liabilities:	
Account Payable	802
Total Current Liabilities	802
Net Position:	
Net Investment in Capital Assets	874,924
Restricted	193,928
Total Net Position	1,068,852
TOTAL LIABILITIES AND NET POSITION	1,069,654

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	ENTERPRISE FUNDS
	FOOD SERVICE
OPERATING REVENUES:	
Lunchroom Sales	226,540
Other Operating Revenues	6,746
TOTAL OPERATING REVENUES	233,286
OPERATING EXPENSES:	
Salaries & Benefits	1,010,282
Contract Services	45,644
Materials & Supplies	1,099,152
Depreciation - Note F	78,688
Other Operating Expenses	602
TOTAL OPERATING EXPENSES	2,234,368
OPERATING INCOME(LOSS)	(2,001,082)
NONOPERATING REVENUES(EXPENSES):	
Federal Grants	1,643,024
State Grants	182,843
Donated Commodities	92,347
Interest Income	1,217
TOTAL NONOPERATING REVENUE	1,919,431
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(81,651)
CAPITAL CONTRIBUTIONS	0
CHANGE IN NET POSITION	(81,651)
TOTAL NET POSITION - BEGINNING	1,150,503
TOTAL NET POSITION - ENDING	1,068,852

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>FOOD SERVICE FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from:	
Lunchroom Sales	226,540
Other Activities	6,746
Cash Paid to/for:	
Employees	(844,556)
Supplies	(1,012,755)
Other Activities	(46,246)
	<u>(46,246)</u>
Net Cash Provided (Used) by Operating Activities	(1,670,271)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:	
Donations	
Federal Grants	1,725,408
State Grants	17,117
	<u>17,117</u>
Net Cash Provided by Non-Capital and Related Financing Activities	1,742,525
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of Capital Assets	(447)
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of Interest Income	1,217
	<u>1,217</u>
Net Increase in Cash and Cash Equivalents	73,024
Balances, Beginning of Year	<u>88,510</u>
Balances, End of Year	<u><u>161,534</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Loss	(2,001,082)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities	
Depreciation	78,688
State On-Behalf Payments	165,726
Donated Commodities	92,347
Change in Assets and Liabilities:	
Inventory	(6,630)
Accounts Payable	680
	<u>680</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(1,670,271)</u></u>
Schedule of Non-Cash Transactions:	
Donated Commodities	92,347
State On-Behalf Payments	165,726

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	<u>AGENCY FUND</u>	<u>SCHOLARSHIP FUND</u>
ASSETS:		
Cash and Cash Equivalents	284,589	4,900
Accounts Receivable	<u>900</u>	
TOTAL ASSETS	<u>285,489</u>	<u>4,900</u>
LIABILITIES:		
Accounts Payable	674	
Due to Scholarship Recipients		4,900
Due to Student Groups	<u>284,815</u>	
TOTAL LIABILITIES	<u>285,489</u>	<u>4,900</u>
NET POSITION HELD IN TRUST	<u><u>0</u></u>	<u><u>0</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
ADDITIONS:	
Scholarship Funds Contributed	4,900
DEDUCTIONS:	
Benefits Paid	<u>0</u>
Changes in Net Position	4,900
NET POSITION HELD IN TRUST - BEGINNING OF YEAR	<u>0</u>
NET POSITION HELD IN TRUST - END OF YEAR	<u><u>4,900</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Russell County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Russell County Board of Education (“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 District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Russell County Board of Education. 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 organizations are included in the accompanying financial statements:

Russell County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Russell County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified on Pages 43 and 44 in the Schedule of Expenditures of Federal Awards and related notes. 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 Fund).
 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Fund)

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 is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the 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 on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is 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 60 days of the fiscal year-end.

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 resource 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 it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – 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 position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$0.504 per \$100 valuation for real property, \$0.504 per \$100 valuation for business personal property, and \$0.522 per \$100 valuation for motor vehicles.

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

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payable 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.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the 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 amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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.

Cash and Cash Equivalents

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

Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

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, 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

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

Major Special Revenue Fund

Special Revenue

Revenue Source

State, Local and Federal Grants

Net Position

Net Position represents the difference between assets and liabilities. Net investment in capital assets, 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 position is 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.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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.

Changes in Accounting Principle

Effective for the fiscal year ending June 30, 2014, the Board adopted GASB Statement 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989, FASB and AICPA Pronouncements*, which codifies all applicable GASB, Financial Accounting Standards Board (“FASB”), and Accounting Principles Board opinions dated according to the title of the statement. Additionally, for fiscal year ending June 30, 2014, the Board has implemented GASB Statement 65 *Items Previously Reported as Assets and Liabilities* which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note T for the impact of the adoption of this standard on beginning net position.

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District’s total cash and cash equivalents was \$12,897,462. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, \$11,843,477 was covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name, and \$799,085 was not collateralized. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

Cash and cash equivalents at June 30, 2014, consisted of the following:

	Bank Balance	Book Balance
First National Bank	<u>14,494,880</u>	<u>12,897,462</u>
Breakdown per financial statements:		
Governmental Funds		12,446,438
Proprietary Funds		<u>161,535</u>
Subtotal		12,607,973
Fiduciary Funds		4,900
Agency Funds		<u>284,589</u>
Total Cash and Cash Equivalents All Funds		<u>12,897,462</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – INVESTMENTS

The District held no investments on June 30, 2014.

NOTE E – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the Russell County School District Finance Corporation aggregating \$34,495,000.

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

2002	4,900,000	1.40% - 4.10%
2003 Refunding	450,000	3.60% - 4.15%
2005 Unrefunded	770,000	3.50% - 3.55%
2006B	3,590,000	3.75% - 4.00%
2006R	4,780,000	3.35% - 4.00%
2007	8,275,000	4.00% - 4.125%
2011	5,940,000	1.00% - 3.50%
2013 Refunding	4,840,000	1.00% - 2.05%
2014	10,875,000	2.00% - 4.00%

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

The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice if its intention not to participate not less than sixty days prior to the end of its biennium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2014, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2014-15	1,630,000	1,116,650	202,232	2,544,418
2015-16	1,625,000	1,088,995	142,011	2,571,984
2016-17	1,675,000	1,042,214	143,500	2,573,714
2017-18	1,725,000	993,213	143,258	2,574,955
2018-19	1,775,000	938,977	142,647	2,571,330
2019-20	1,835,000	879,572	143,677	2,570,895
2020-21	1,830,000	809,558	67,354	2,572,204
2021-22	1,890,000	752,798	67,354	2,575,444
2022-23	1,945,000	693,625	67,354	2,571,271
2023-24	2,000,000	631,543	58,964	2,572,579
2024-25	2,045,000	566,675	37,114	2,574,561
2025-26	2,115,000	492,361	33,544	2,573,817
2026-27	2,115,000	425,697	26,546	2,514,151
2027-28	2,150,000	353,275	0	2,503,275
2028-29	1,225,000	294,919	0	1,519,919
2029-30	1,275,000	255,106	0	1,530,106
2030-31	1,325,000	212,075	0	1,537,075
2031-32	1,380,000	165,700	0	1,545,700
2032-33	1,435,000	117,400	0	1,552,400
2033-34	<u>1,500,000</u>	<u>60,000</u>	<u>0</u>	<u>1,560,000</u>
	<u>34,495,000</u>	<u>11,890,353</u>	<u>1,275,555</u>	<u>45,109,798</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities:					
Revenue Bonds Payable	25,190,000	10,875,000	1,570,000	34,495,000	1,630,000
Capital Lease Obligations	1,173,152	0	260,424	912,728	239,677
KISBIT Assessment	3,700	0	0	3,700	3,700
Accrued Sick Leave	<u>863,022</u>	<u>120,847</u>	<u>121,112</u>	<u>862,757</u>	<u>94,269</u>
Governmental Activities					
Long-Term Liabilities	<u>27,229,874</u>	<u>10,995,847</u>	<u>1,951,536</u>	<u>36,274,185</u>	<u>1,967,646</u>

NOTE F - CAPITAL LEASE PAYABLE

The District is the lessee of buses, a garbage truck, and school improvements under capital leases expiring in various years through 2020. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2014.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2014</u>
Gross amount of assets	5,377,526
Accumulated Amortization	(4,362,753)
	<u>1,014,773</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2014:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2015	267,341
2016	224,198
2017	196,404
2018	145,266
2019	120,645
Thereafter	<u>32,737</u>
Net minimum lease payments	986,591
Amount representing interest	(73,863)
Present value of net minimum lease payments	<u>912,728</u>

Interest rates on capitalized leases vary from 1.00% to 4.00%. The capital leases provide for the buses and technology equipment to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	1,038,022		4,517	1,033,505
Construction In Progress	249,474	1,668,997		1,918,471
Depreciable Assets:				
Land Improvements	1,453,896		30,348	1,423,548
Buildings & Building Improvements	52,952,215		752,144	52,200,071
Technology Equipment	1,561,313	88,421	59,651	1,590,083
Vehicles	4,509,732	289,038		4,798,770
General Equipment	820,934	42,123		863,057
TOTAL AT HISTORICAL COST	62,585,586	2,088,579	846,660	63,827,505
LESS ACCUMULATED DEPRECIATION FOR:				
Land Improvements	1,296,079	34,086	30,348	1,299,817
Buildings & Building Improvements	13,184,058	1,050,395	410,139	13,824,314
Technology Equipment	1,396,541	81,591	59,651	1,418,480
Vehicles	3,678,038	208,020		3,886,058
General Equipment	641,286	25,532		666,818
TOTAL ACCUMULATED DEPRECIATION	20,196,002	1,399,624	500,138	21,095,487
GOVERNMENTAL ACTIVITIES CAPITAL NET	42,389,584	688,955	346,522	42,732,018
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Buildings and Improvements	1,037,161		10,818	1,026,343
Technology Equipment	27,962	447		28,409
General Equipment	873,708			873,708
TOTALS AT HISTORICAL COST	1,938,831	447	10,818	1,928,460
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings and Improvements	377,317	20,329	10,818	386,828
Technology Equipment	13,202	5,674		18,876
General Equipment	595,147	52,685		647,832
TOTAL ACCUMULATED DEPRECIATION	985,666	78,688	10,818	1,053,536
PROPRIETARY ACTIVITIES CAPITAL NET	953,165	(78,243)	-0-	874,924
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,186,439
Student Support Services				285
Staff Support Services				458
District Administration				8,642
School Administration				453
Plant Operation & Maintenance				21,086
Student Transportation				181,715
Community Service Operations				546
TOTAL				1,399,624

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – RETIREMENT PLANS

Certified employees are covered under the Teachers' Retirement System of Kentucky ("KTRS"), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through 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 can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 14.605% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% for employees hired before September 15, 2008, and 6% for employees hired after September 15, 2008, and a Board contribution of 18.96% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$16,055,624. The payroll for employees covered under KTRS was \$12,505,992 and for CERS was \$3,549,632.

For the years ended June 30, 2014, 2013 and 2012, the Commonwealth contributed \$1,470,643, \$1,409,055 and \$1,505,159 respectively to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2014, 2013 and 2012 were \$364,776, \$265,624 and \$180,132 respectively which represent those employees covered by federal programs.

The contribution requirements for CERS for the years ended June 30, 2014, 2013 and 2012, were \$856,496, \$702,526 and \$729,213, respectively, equal to the required contributions for each year.

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the Plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increased and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following tables present certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS June 30, 2013	CERS June 30, 2013
Assets available for benefits, at fair value	14,962,758,000	5,637,094,483
Pension benefit obligation	<u>(28,817,232,000)</u>	<u>(9,378,876,114)</u>
(Underfunded)/overfunded pension benefit obligation	<u>(13,854,474,000)</u>	<u>(3,741,781,631)</u>

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2013, comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute to the maximum amount allowable by law. The District does not contribute to these plans.

NOTE I – COMMITMENTS

Extensive renovation of Russell County High School is ongoing as of the audit date. It is anticipated that the completion of this project will cost an additional \$8,956,529.

NOTE J – CONTINGENCIES

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

NOTE K – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related including Workers' Compensation insurance.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers’ compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently the District maintains insurance coverage through the Netherlands Insurance Company.

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

NOTE M – DEFICIT OPERATING BALANCES

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

Construction Fund	1,668,996
Special Revenue Fund	185,659
Debt Service Fund	2,165,508

NOTE N – COBRA

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

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	144,985
Operating	General	FSPK	Capital Projects	606,122
Operating	SEEK	Debt Service	Debt Service	299,166
Operating	FSPK	Debt Service	Debt Service	<u>1,865,329</u>
		Total Funds Transferred		<u>2,915,602</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2014.

NOTE Q – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 24, 2014. There are no material subsequent events to disclose.

NOTE R – ON-BEHALF PAYMENT

For the year ended June 30, 2014, \$5,161,880 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, and administrative fees were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

General Fund	\$ 4,664,742
Food Service Fund	165,726
Debt Service Fund	<u>331,412</u>
Total	<u>\$ 5,161,880</u>

NOTE S – KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2014, Russell County School District's assessment is valued at \$3,700. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment in full during the year ended June 30, 2015.

NOTE T – NET POSITION, AS RESTATED

Governmental Accounting Standards Board Statement 65 required changes to the beginning balances of the Statement of Net Position. Beginning net position of the governmental activities was decreased \$1,171,168 to eliminate bond issuance costs, which had been capitalized and amortized on previous statements. Further, beginning net position of the governmental activities increased \$1,060,462 to capitalize the deferred costs from refunding bonds prior to the fiscal year beginning July 1, 2013.

Net Position as of June 30, 2013	\$17,864,670
Less: Elimination of bond issuance costs	(1,171,168)
Add: Deferred outflows from advanced bond refundings	<u>1,060,462</u>
Beginning Net Position, As Restated	<u>\$ 17,753,964</u>

REQUIRED SUPPLEMENTARY
INFORMATION

OTHER SUPPLEMENTARY
INFORMATION

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	5,368,000	5,368,000	5,548,004	180,004
Other Local Sources	30,000	30,000	40,492	10,492
State Sources	11,217,000	11,217,000	16,269,307	5,052,307
Federal Sources	290,000	290,000	337,716	47,716
Other Sources	95,000	95,000	881,594	786,594
TOTAL REVENUES	17,000,000	17,000,000	23,077,113	6,077,113
EXPENDITURES:				
Instructional	9,996,943	9,996,943	12,975,582	(2,978,639)
Student Support Services	1,383,107	1,383,107	1,658,053	(274,946)
Staff Support Services	658,436	658,436	688,255	(29,819)
District Administration	1,253,213	1,253,213	764,111	489,102
School Administration	1,092,023	1,092,023	1,295,762	(203,739)
Business Support Services	583,252	583,252	757,007	(173,755)
Plant Operation & Maintenance	1,963,721	1,963,721	1,910,272	53,449
Student Transportation	1,878,339	1,878,339	1,929,596	(51,257)
Central Office	0	0	0	0
Food Service	0	0	0	0
Community Service Operations	0	0	8,859	(8,859)
Facility Acquisition & Construction	0	0	0	0
Other	190,966	190,966	335,951	(144,985)
TOTAL EXPENDITURES	19,000,000	19,000,000	22,323,448	(3,323,448)
NET CHANGE IN FUND BALANCE	(2,000,000)	(2,000,000)	753,665	2,753,665
FUND BALANCES - BEGINNING	2,000,000	2,000,000	1,855,019	0
FUND BALANCES - ENDING	0	0	2,608,684	2,753,665

On-behalf payments totaling \$4,664,742 are not budgeted by the Russell County School District.

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes				
Other Local Sources	1,262	44,102	490	(43,612)
State Sources	0	452,149	715,054	262,905
Federal Sources	649,605	2,218,044	2,492,525	274,481
Other Sources	55,731	0	208,782	208,782
TOTAL REVENUES	<u>706,598</u>	<u>2,714,295</u>	<u>3,416,851</u>	<u>702,556</u>
EXPENDITURES:				
Instructional	387,731	1,926,297	2,580,935	(654,638)
Student Support Services	0	17,692	72,908	(55,216)
Staff Support Services	51,824	344,666	393,253	(48,587)
District Administration	0	0	0	0
School Administration	0	0	0	0
Business Support Services	0	27,345	69,393	(42,048)
Plant Operation & Maintenance	0	41,102	41,104	(2)
Student Transportation	0	0	299,932	(299,932)
Food Service	0	312,987	0	312,987
Central Office	0	0	0	0
Community Service Operations	16,798	0	0	0
Facility Acquisition & Construction	0	0	0	0
Other	250,245	44,206	0	44,206
TOTAL EXPENDITURES	<u>706,598</u>	<u>2,714,295</u>	<u>3,457,525</u>	<u>(743,230)</u>
NET CHANGE IN FUND BALANCE	0	0	(40,674)	(40,674)
FUND BALANCES - BEGINNING	<u>0</u>	<u>0</u>	<u>40,674</u>	<u>0</u>
FUND BALANCES - ENDING	<u>0</u>	<u>0</u>	<u>0</u>	<u>(40,674)</u>

See accompanying auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

	BUILDING FUND	SEEK CAPITAL OUTLAY FUND	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:				
Cash & Cash Equivalents	6,759	792		7,551
Accounts Receivable:				
Taxes				
Accounts				
TOTAL ASSETS	<u>6,759</u>	<u>792</u>	<u>0</u>	<u>7,551</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable				
Accrued Sick Leave				
Deferred Revenues				
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:				
Restricted for:				
Capital Projects	6,759	792		7,551
Total Fund Balances	<u>6,759</u>	<u>792</u>	<u>0</u>	<u>7,551</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>6,759</u>	<u>792</u>	<u>0</u>	<u>7,551</u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	BUILDING FUND	SEEK CAPITAL OUTLAY FUND	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:				
Taxes	1,640,688			1,640,688
Earnings from Investments				0
Intergovernmental - State	837,522	266,388	331,412	1,435,322
TOTAL REVENUES	<u>2,478,210</u>	<u>266,388</u>	<u>331,412</u>	<u>3,076,010</u>
EXPENDITURES:				
Debt Service:				
Principal			1,660,239	1,660,239
Interest			836,681	836,681
TOTAL EXPENDITURES	<u>0</u>	<u>0</u>	<u>2,496,920</u>	<u>2,496,920</u>
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	2,478,210	266,388	(2,165,508)	579,090
OTHER FINANCING SOURCES(USES):				
Operating Transfers In			2,164,495	2,164,495
Operating Transfers Out	(2,471,451)	(299,166)		(2,770,617)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(2,471,451)</u>	<u>(299,166)</u>	<u>2,164,495</u>	<u>(606,122)</u>
NET CHANGE IN FUND BALANCES	<u>6,759</u>	<u>(32,778)</u>	<u>(1,013)</u>	<u>(27,032)</u>
FUND BALANCES - BEGINNING	<u>0</u>	<u>33,570</u>	<u>1,013</u>	<u>34,583</u>
FUND BALANCES - ENDING	<u>6,759</u>	<u>792</u>	<u>0</u>	<u>7,551</u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	FUND BALANCE JULY 1, 2013	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2014
Russell Springs Elementary	47,530	25,789	19,683	53,636
Jamestown Elementary	20,764	32,881	25,866	27,779
Salem Elementary	21,210	15,238	18,498	17,950
Russell County Middle School	31,389	61,712	64,329	28,772
Russell County High School	111,111	309,765	264,787	156,089
Total Activity Funds (Due to Student Groups)	<u>232,004</u>	<u>445,385</u>	<u>393,163</u>	<u>284,226</u>

See independent accountant's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2014

	CASH BALANCE JULY 1, 2013	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2014	ACCOUNTS RECEIVABLE JUNE 30, 2014	ACCOUNTS PAYABLE JUNE 30, 2014	FUND BALANCE JUNE 30, 2014
Academic Team	563	46	0	609			609
Agriculture (Shop)	2,653	159	0	2,812			2,812
Art Club	771	420	0	1,191			1,191
Athletic	39,131	105,563	73,405	71,289			71,289
Boss	683	808	546	945			945
Concession	2,799	5,132	0	7,931			7,931
DECA	1,620	6,931	7,214	1,337			1,337
Drama	901	0	0	901			901
FCA	322	1,005	969	358			358
FCCLA	657	624	165	1,116			1,116
FFA	6,315	26,531	24,765	8,081			8,081
Flower & Gift Fund	2,015	4,894	4,678	2,231			2,231
Freshman Class	468	2,006	1,651	823			823
History	157	0	0	157			157
Horticulture	2,062	0	10	2,052			2,052
Junior Class	49	0	0	49			49
Laker Bakery	0	648	0	648			648
Library	1,342	1,615	1,431	1,526			1,526
Miscellaneous	27,579	46,600	61,726	12,453			12,453
Newspaper	1,368	201	0	1,569			1,569
Pride Club	17	0	0	17			17
ROTC	4,364	18,628	13,072	9,920			9,920
Senior Class	4,910	56,611	56,784	4,737			4,737
Sophomore	42	0	0	42			42
Spanish	1,691	685	1,136	1,240			1,240
Spirit Club	233	0	139	94			94
State Books	397	0	0	397			397
Student Council	1,920	0	0	1,920			1,920
Tech Ed	27	0	0	27			27
WLKR	453	80	221	312			312
Y-Club	127	13,635	13,270	492			492
Yearbook	5,475	16,068	3,350	18,193			18,193
Youth Service Center	0	875	255	620			620
Total All Funds	111,111	309,765	264,787	156,089	0	0	156,089
Interfund Transfers	0			0	0	0	0
Total	111,111	309,765	264,787	156,089	0	0	156,089

RUSSELL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - Grants to Local Educational Agencies	84.010	3102	67,934
Title I - Professional Development of District	84.010	3102M	2,872
Title I - Parent Involvement	84.010	3102D	583
Title I - Grants to Local Educational Agencies	84.010	3102T	874
Title I - Parent Involvement	84.010	3103	234,816
Title I - Professional Development of District	84.010	3103D	13,880
Title I - Tier III Deferred	84.010	3103M	683
Title I - Grants to Local Educational Agencies	84.010	3104	789,453
Title I - Professional Development of District	84.010	3104D	43,403
Title I - Parent Involvement	84.010	3104M	6,824
Title I Cluster			1,161,322 *
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4012	959
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4013	63,783
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4014	188,636
Title II Total			253,378
Title III - Limited English Proficiency	84.365	3452	5,302
Title III - Limited English Proficiency	84.365	3453	2,692
Title III Total			7,994
Perkins Voc.	84.048	3483	3,498
Perkins Voc.	84.048	3483A	1,281
Perkins Voc.	84.048	3484	21,126
Total Perkins Voc.			25,905
IDEA - Special Education - Grants to State	84.027	3373	316,257
IDEA - Special Education - Grants to State	84.027	3374	87
IDEA - Special Education - Preschool Grants	84.173	3432	3,158
IDEA - Special Education - Preschool Grants	84.173	3433	8,243
IDEA - Special Education - Preschool Grants	84.173	3434	22,806
Special Education Cluster			350,551 *
21st Century Learning Center	84.287	5502	18,313
21st Century Learning Center	84.287	5503	49,625
21st Century Learning Center	84.287	5503C	42,101
21st Century Learning Center	84.287	5503S	10,000
22nd Century Learning Center	84.287	5505J	1,546
23rd Century Learning Center	84.287	5505M	4,721
24th Century Learning Center	84.287	5505R	2,665
21st Century Learning Center Total			128,971
Migrant Education - State Grant Program	84.011	3113	1,882
Migrant Education - State Grant Program	84.011	3113S	17,057
Migrant Education - State Grant Program	84.011	3114	71,773
Migrant Education Total			90,712

Race to the Top	84.413A	4364	10,981
Race to the Top	84.413A	4521	33,408
Race to the Top	84.413A	4523	<u>60,734</u>
Race to the Top Total			105,123
Impact Aid	84.410	GF	248,389
Federal Adult Education	84.002	3733	3,753
Federal Adult Education	84.002	3734	58,762
Federal Adult Education - PD	84.002	3734S	<u>220</u>
Federal Adult Education Total			62,735
Title IV - Rural and Low Income Schools	84.358	3503	11,789
Title IV - Rural and Low Income Schools	84.358	3504	<u>47,892</u>
Title IV - Rural and Low Income Schools Total			59,681
Total U.S. Department of Education			<u>2,494,761</u>
<u>U.S. Department of Labor</u>			
Passed Through Lake Cumberland Area Development District			
WIA-Regular Youth Program	17.259	5883A	551
WIA-Regular Youth Program	17.259	5884A	<u>32,942</u>
Total U.S. Department of Labor			33,493
<u>U.S. Department of Health and Human Services</u>			
Passed Through Big Sandy Area Development District			
Temporary Assistance for Needy Families	93.558	0042	15,925
Temporary Assistance for Needy Families	93.558	0043	<u>132,478</u>
Total U.S. Department of Health and Human Services			148,403
<u>U.S. Department of Defense</u>			
NJROTC	12.404	5044	71,654
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
National School Lunchroom	10.555	7750002-13	246,163
National School Lunchroom	10.555	7750002-14	866,876
School Breakfast Program	10.553	7760005-13	117,425
School Breakfast Program	10.553	7760005-14	<u>412,560</u>
Child Nutrition Cluster			1,643,024 *
Pass-Through State Department of Agriculture			
State Administrative Funds	10.560	7850012-12	1,000
Food Distribution	10.565	057502-10	<u>92,347</u>
Total U.S. Department of Agriculture			1,736,371
Total Federal Financial Assistance			<u>4,484,682</u>

* Tested as major program

RUSSELL COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Russell County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

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

RUSSELL COUNTY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of 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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.555/10.553	Child Nutrition Cluster
84.010	Title I Cluster
84.027/84.173	Special Education Cluster

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

Auditee qualified as low-risk auditee? _____ Yes X No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

RUSSELL COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2014

Finding: 2013-01 Adjustments

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

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

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

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

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

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

Current Year Status: No material adjustments were proposed for the year ended June 30, 2014.

Finding: 2013-01 Adjustments

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

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

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

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

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

Questioned Costs: \$534.69

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

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

Current Year Status: No such matters were noted for the year ended June 30, 2014.

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October 24, 2014

**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**

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

We have audited, in accordance with the 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 *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Auditing Requirements, Appendix II of the independent Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Russell County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Russell County School District's basic financial statements, and have issued our report thereon dated October 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Russell County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Russell County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Russell County School 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 Russell County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Russell County School District in a separate letter dated October 24, 2014.

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.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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October 24, 2014

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

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

Report on Compliance for Each Major Federal Program

We have audited the Russell County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Russell County School District's major federal programs for the year ended June 30, 2014. Russell County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Russell County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Russell County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Russell County School District complied, in all material respects, with the 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, 2014.

Report on Internal Control Over Compliance

Management of Russell County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Russell County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program 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 County School District's internal control over compliance.

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

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.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.

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October 24, 2014

MANAGEMENT LETTER

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

In planning and performing our audit of the financial statements of Russell County School District for the year ended June 30, 2014, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

In addition, we have reviewed recommendations made by the prior auditors in the audit report for the year ended June 30, 2013, and we have reviewed management's responses to those recommendations. Our findings based upon those prior year recommendations are also summarized below.

Prior Year Recommendation:

Fundraisers

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

Current Year Finding:

Fundraiser forms were properly completed for fundraisers tested.

Prior Year Recommendation:

Booster Clubs

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

Current Year Finding:

No such matters were noted in the current year.

Prior Year Recommendations: Jamestown Elementary

Check Written to Cash

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

Current Year Finding:

No checks tested were made payable to cash.

Purchase Order

It was noted that check #5354 dated 6/18/13 in the amount of \$2,740.20 was written to Lifetouch to pay for yearbooks from the Annual Fund contained an F-SA-7, Purchase Order dated 6/18/13, after the Lifetouch invoice date of 4/24/2013.

Current Year Finding:

Purchase orders were properly completed and approved for disbursements tested.

Prior Year Recommendations: Russell County High School

Inventory Controls

It was noted that Coke sales were being sold as follows: (1) individual soda sales at the end of the day to students and (2) by the case through preorders. The individual soda sales to students should be tracked through Inventory Control Worksheet, Form F-SA-5. Check #7410 dated 8/22/12 to Clark Beverage Group for soft drinks from the Misc/General fund was used to purchase soft drinks for resale, without the completion of form F-SA-5, Inventory Control Worksheet. The Redbook requires that reasonable profits on any stocked items held for resale be verified using the Inventory Control Worksheet.

Current Year Finding:

Inventory Control Worksheets were properly completed for applicable disbursements that were tested.

Untimely Deposits

It was noted that deposits dated 11/5/12 in the amount of \$23,240.72 and 5/28/13 in the amount of \$6,167.13 were not deposited in a timely manner. The deposit dated 11/5/12 contained Multiple Receipt Form, F-SA-6, dated from 10/24/12 and ticket sales forms from games dated 10/23/12, 10/26/12, 10/30/12, 11/1/12, and 11/2/12. It was also noted that a deposit dated 5/28/13 contained two ticket sales forms from games dated 5/22/13 and 5/23/13 totaling \$1,890 and \$1,420 from baseball and softball district tournament games.

Current Year Finding:

Deposits tested were made timely.

Multiple Receipt Forms:

It was noted that a deposit dated 8/15/12 in the amount of \$1,523.36 contained Multiple Receipt Form, F-SA-6, from FFA for the state fair in the amount of \$410 was not signed by students, but instead completed by the sponsor remitting the money. It was also noted that a deposit dated 10/16/12 for \$216.10 contained two Multiple Receipt Forms for drink sales in the amounts of \$24 and \$185 were not signed by students, but instead completed by the sponsor remitting the money.

Current Year Finding:

When applicable, Multiple Receipt Forms were properly completed for the receipts that were tested.

Purchase Order

Check #7410 dated 8/22/12 written to Clark Beverage Group for soft drinks from the Misc/General fund had a Purchase Order, form F-SA-7, dated 8/26/12 after the invoice date of 8/3/12. We noted check #7770 dated 1/16/13 written to Wal-Mart for cleaning supplies from the Misc/General fund had a Purchase Order, for F-SA-7, dated 1/11/13 after the invoice date of 1/10/13. We noted check #7949 dated 4/10/13 to Florida Farm Bureau for fresh strawberries from FFA Fund that contained a Purchase Order, form F-SA-7, dated 4/9/13 after the invoice dated 3/19/13.

Current Year Finding:

Purchase orders were properly completed and approved for disbursements that were tested.

Unallowable Purchase

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

Current Year Finding:

No such items were noted for the year ended June 30, 2014.

Prior Year Recommendations: Russell County Middle School

Segregation of Duties

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

Current Year Finding:

Proper segregation of duties were implemented.

Fundraisers

Fundraiser Approval Worksheets, F-SA-2A, and Fundraiser Worksheet, F-SA-2B, were not completed for the following Fundraisers: General Fund Chocolate Sales, General Fund Chick-A-Licious, and Y-Club Krispy Kreme Sales. The Redbook requires that fund raising activities be monitored using the Fundraiser Worksheet, form F-SA-2B.

Current Year Finding:

Fundraiser forms were properly completed for fundraisers that were tested.

Principal's Combining Budget

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

Current Year Finding:

No such matters were noted for the year ended June 30, 2014.

Multiple Receipt Forms

A deposit dated 4/30/12 in the amount of \$228.62 did not contain form F-SA-6, Multiple Receipt Form, for the following student collections: 7th Grade Survivor (\$148.00) and Library Late Due Fees (\$80.62). The Redbook requires that Teachers/Sponsors/Students shall use a Multiple Receipt Form when collecting money.

Current Year Finding:

Multiple Receipt Forms were properly completed for receipts tested.

Concessions

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

Current Year Finding:

Applicable receipt forms were properly completed for receipts that were tested.

Unallowable Purchase

Check #5664 dated 10/30/12 in the amount of \$80 written to SugaSisters was used to purchase Cupcakes for Faculty/Staff from the Ballgame Concessions Fund. Staff items should be purchased from Faculty Funds.

Current Year Finding:

Staff items were purchased from Faculty Funds for the year ended June 30, 2014.

Purchase Order

Check #5688 dated 11/30/12 in the amount of \$1,338.53, written to Follet Software for Hosted Service Rental contained an F-SA-7, Purchase Order dated 11/30/12, after the invoice date of 9/10/12. Check #5778 dated 6/4/13 in the amount of \$743.50 was written to Russell County Nutrition from the Student Coke fund for Breakfast for testing which did not contain a Purchase Order. The Redbook requires that to initiate a purchase, a Purchase Order should be prepared and approved by the sponsor and principal before the payment is obligated.

Current Year Finding:

Purchase Orders were properly completed and approved for disbursements tested.

Missing Invoice

Check #5718 dated 1/30/13 in the amount of \$780 written to Krispy Kreme for Y Club Sales out of the KUNA fund was purchased without a vendor's invoice. The Redbook requires that before being processed for payment, each disbursement shall be documented by a completed purchase order and an original vendor invoice or standard invoice.

Current Year Finding:

All disbursements tested were appropriately documented.

Prior Year Recommendations: Salem Elementary School

Purchase Orders

Check # 5586 dated 7/3/12 in the amount of \$63.64, written to Country Café out of the Concession Fund for lunch for workers was not approved with an F-SA-7, Purchase Order before the purchase was made. Check #5587 dated 7/3/12 in the amount of \$253.63, written to Country Café out of the Concessions Fund for lunch for workers was not approved by a Purchase Order before the purchase was made. Check #5588 dated 7/30/12 in the amount of \$231.49 written to Terry Grider for Teacher Supplies out of the Teachers' Lounge Fund contained a Purchase Order dated 7/30/12, after the purchase was made on 7/27/12.

Current Year Finding:

Purchase Orders were properly completed and approved for disbursements tested.

Unallowable Purchase

Checks #5586 and #5587, both written to Country Café in the amounts of \$63.64 and \$253.63, both dated 7/3/12 for Lunch for Workers were paid from the Concessions Activity Fund, a student generated fund. Staff items are to be paid with Faculty Funds.

Current Year Finding:

Staff items were purchased from Faculty Funds.

Prior Year Recommendations: Union Chapel Elementary

Multiple Receipt Form

A deposit dated 1/3/13 in the amount of \$437.55 did not contain a Multiple Receipt Form, form F-SA-6, detailing \$376.30 in cash received into the Library fund.

Current Year Finding:

Multiple Receipt Forms were properly completed for receipts that were tested.

Current Year Recommendation:

The District's cash at First National Bank was not fully collateralized as of June 30, 2014. Based on the balances of the District's cash accounts held at the bank, \$2,401,403 was exposed to deposit risk. This occurred due to the receipt of bond proceeds near the end of the fiscal year. We recommend that the District monitor its bank balances in conjunction with its pledged collateral to ensure that all of the District's deposits are fully collateralized.

Management Response:

We will monitor the level of collateral to ensure that all cash is fully collateralized.

Current Year Recommendation:

During the audit, it was noted that the District had paid late fees on some invoices. The District should take measures to ensure that balances are paid in full by the due date to avoid all late fees.

Management Response:

We will pay invoices by the due date to avoid late charges.

Current Year Recommendation:

During the testing of school activity funds, it was noted that receiving reports nor signed invoices were present to document that the goods purchased had been received prior to payment. Schools should document the receipt of goods prior to disbursing payment.

Management Response:

Schools will document the receipt of goods with a receiving report or by signing the invoice prior to disbursing payment for those goods.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various District personnel, and we will be pleased to perform any additional study of this matter or to assist you in implementing the recommendation.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
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Charles M. White, CPA
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October 24, 2014

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Russell County School District for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 7, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Russell County School District are described in Note A to the financial statements. As described in Note A to the financial statements, the Russell County School District changed accounting policies related to deferred outflows and deferred inflows of resources by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities*, in 2014. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the government-wide financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 24, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Russell County School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Russell County School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 37 and 38, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this information and we do not express an opinion or provide assurance on it.

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Russell County School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants