

**RUSSELL INDEPENDENT
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133.....	47-48
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	49
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	50
CORRECTIVE ACTION PLAN.....	51
MANAGEMENT LETTER POINTS.....	52-53



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Russell Independent School District (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Russell Independent School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 6 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of Russell Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws,

regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kelley Anthony Smith, CPA

November 14, 2014

**RUSSELL INDEPENDENT SCHOOL DISTRICT - RUSSELL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2014**

As management of the Russell Independent School District (the "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 report.

FINANCIAL HIGHLIGHTS

- The General Fund ending cash balance for the District increased from \$3.16 million at June 30, 2013 to \$3.23 million at June 30, 2014. The very slight increase was due to increases in property tax and utility tax collections well above budget, offset by the transfer of funds to the Construction Fund for the Russell High School track renovations.
- The General fund had \$17.1 million in revenue, of which 63.0% consisted of state funding (SEEK program and on-behalf payments for insurance and retirement) and 36.7% in property, utilities and motor vehicle taxes. \$601,912 was a one time transfer to the Construction fund for the renovation of the track and Russell High School. Additionally, salaries and benefits were 80.9% of total expenses. The District continues to lead our region in certified staff wages, which allows us to impact our children with highly skilled professionals. This is reflected in the excellence of our test scores. For 2013 and 2014, we ranked 7th of 173 school districts in average certified teacher salary in the Commonwealth of Kentucky.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with the Kentucky Department of Education (KDE) stringent compliance regulations. The District made \$890,755 in bond payments during the 2013-2014 year from its reserves. Including assistance from the School Facilities Construction Commission, total bond payments made by the District were \$1,248,057.
- The average daily attendance for students continues to decline slightly. Our funding for 2013-2014 was based upon 1,999 children, as compared to 2,013 in the previous year. Funding will continue to decline as our ADA for 2014-2015 will be based upon 1,977 children. Each child represents approximately \$4,100 in revenues to the District. ADA is what drives our portion of SEEK and is the largest source of revenues for the District.
- During the 2012-2013 year, the Food Service program suffered a significant operational loss due to changes made by the Healthy, Hunger-Free Kids Act. The 2013-2014 year showed some improvement in participation. Our net operational loss (net of capital expenditures and depreciation) for 2012-2013 exceeded \$60,000. For the current year, the net operational loss was just under \$13,000. We look to continue to make improvements for this fund in menu adjustments and items offered that are compliant with the law, yet palatable for our students.
- The District began the paid preschool program in 2012. Our child care program includes an After School program that offers services to children grades K through 5 for three hours in the evening. The program includes an all-day, paid preschool program. The program has grown significantly over the current year and will continue to look for expansion. The district administration and board feels strongly that this program is crucial for our community in order to expand our enrollment and provide kindergarten ready training to eligible pre-K students.
- This fiscal year allowed the District to substantially complete the renovation of the Russell High School Track. The total cost upon completion is estimated to be approximately \$600,000. The renovation included a complete rework of the underground drainage system, including a drain that is constant for the complete interior of the track. The renovation also included a new track system with line and lane markings. The disruption caused by water expanding the land fill was addressed by new draining, and compaction of the material both physically and by layering of stone. The District does not anticipate future water disruption for the track surface.

- The financial statements include payments made by the Commonwealth of Kentucky for retirement, bond payments, health insurance, life insurance, administrative fees, technology and utilization of the Russell Area Vocational School by our students. The total amount was \$3.3 and \$3.2 million for the 2014 and 2013 fiscal years, respectively. These amounts are shown as both revenue and expenses in the financial statements, and therefore, do not affect the fund position of the District.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

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

The basic governmental fund financial statements can be found on pages 13 through 23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 36 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by approximately \$11.6 and \$11.0 million as of June 30, 2014 and 2013, respectively.

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

these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Net Position comparison for the periods ending June 30, 2014 and 2013

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

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Current Assets	\$ 4,156,283	\$ 3,915,282
Noncurrent Assets	21,050,975	21,513,125
Total Assets	<u>\$ 25,207,258</u>	<u>\$ 25,428,407</u>
Deferred outflows of resources	<u>\$ 63,015</u>	<u>\$ 70,746</u>
Current Liabilities	\$ 1,491,075	\$ 1,250,230
Noncurrent Liabilities	12,188,569	13,179,749
Total Liabilities	<u>13,679,644</u>	<u>14,429,979</u>
Net Position		
Investment in capital assets (net of debt)	8,482,889	8,102,956
Restricted	459,546	307,217
Unrestricted	2,648,194	2,659,001
Total Net Position	<u>\$ 11,590,629</u>	<u>\$ 11,069,174</u>

The overall net position for 2014 as compared to 2013 increased by \$521,455, or 4.7%, due primarily to debt reduction, offset by strong property and utility tax collections.

The following table presents a summary of all governmental activities and business-type activities revenues and expenses for the fiscal year ended June 30, 2014, with comparison to 2013.

	<u>2014</u>	<u>2013</u>
Revenues:		
Local Revenue Sources	\$ 7,344,687	\$ 6,823,289
State Revenue Sources	12,211,932	12,161,485
Federal Revenue	1,442,610	1,499,892
Other Sources	623	1,878
Total Revenues	<u>20,999,852</u>	<u>20,486,544</u>
Expenses:		
Instruction	11,180,581	11,456,988
Student Support Services	733,311	707,114
Instructional Support	1,544,509	1,481,642
District Administration	781,417	772,964
School Administration	1,095,868	975,442
Plant Operations	2,230,318	1,942,572
Student Transportation	791,908	825,526
Business and Other Support Services	231,738	178,612
Community Services	128,138	123,866
Debt Service	466,297	490,000
Food Service	1,106,191	1,175,059
Child Care Fund	188,121	174,735
Total Expenses before KSBIT	<u>20,478,397</u>	<u>20,304,520</u>
Extraordinary item - KSBIT	-	357,591
Total Expenses	<u>20,479,397</u>	<u>20,662,111</u>
Revenues in Excess (Deficiency) of Expenses	<u>\$ 521,455</u>	<u>\$ (175,567)</u>

FUND FINANCIAL ANALYSIS

The District's total General Fund revenues for 2014 exceeded budgeted revenues by \$.8 million, or 4.9%, due to tax collections being much higher than anticipated. Actual General fund expenditures, excluding the contingency reserve, were approximately \$47,426, or .29% greater than budgeted, due to sick leave payments for retirees.

Of the total General Fund expenditures, site-based councils expended 69.5%, while 14.5% was spent for maintenance and operations, 5.9% on administration, 5.7% on special needs students, and 4.4% on transportation.

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2014 and 2013 for selected funds (including on-behalf payments):

June 30, 2014

Revenues:	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Food Service</u>	<u>Child Care Funds</u>	<u>Total</u>
Local revenue sources	\$ 6,321,315	\$ 92,666	\$ 395,290	\$ 383,864	\$ 151,552	\$ 7,344,687
State revenue sources	10,783,305	451,919	886,582	69,623	20,503	12,211,932
Federal revenue	-	863,791	-	578,819	-	1,442,610
Other sources	<u>42,682</u>	<u>36,986</u>	<u>601,912</u>	<u>-</u>	<u>-</u>	<u>681,580</u>
Total Revenues	<u>17,147,302</u>	<u>1,445,362</u>	<u>1,883,784</u>	<u>1,032,306</u>	<u>172,055</u>	<u>21,680,809</u>
Expenses:						
Instruction	9,707,850	920,635	-	-	-	10,628,485
Student support services	733,071	-	-	-	-	733,071
Instructional support	1,147,439	397,070	-	-	-	1,544,509
District administration	760,812	-	-	-	-	760,812
School administration	1,092,248	-	-	-	-	1,092,248
Business support	231,518	-	-	-	-	231,518
Plant operations	2,015,524	10,548	-	-	-	2,026,072
Student transportation	752,590	10,755	-	-	-	763,345
Community support	21,784	106,354	-	-	-	128,138
Food services	36,869	-	-	1,069,322	-	1,106,191
Child care services	-	-	-	-	188,121	188,121
Facilities acquisition and construction	-	-	412,495	-	-	412,495
Debt service	60,323	-	1,248,057	-	-	1,308,380
Transfers	<u>638,898</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,018</u>	<u>680,916</u>
Total expenses	<u>17,198,926</u>	<u>1,445,362</u>	<u>1,660,552</u>	<u>1,069,322</u>	<u>230,139</u>	<u>21,604,301</u>
Revenues over (under) expenses	<u>\$ (51,624)</u>	<u>\$ -</u>	<u>\$ 223,232</u>	<u>\$ (37,016)</u>	<u>\$ (58,084)</u>	<u>\$ 76,508</u>

June 30, 2013

Revenues:	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Food Service</u>	<u>Child Care Funds</u>	<u>Total</u>
Local revenue sources	\$ 5,807,447	\$ 101,135	\$ 394,216	\$ 386,288	\$ 134,203	\$ 6,823,289
State revenue sources	10,768,404	414,924	894,019	67,342	16,796	12,161,485
Federal revenue	-	955,027	-	544,865	-	1,499,892
Other sources	<u>80,852</u>	<u>37,755</u>	<u>-</u>	<u>-</u>	<u>42,018</u>	<u>160,625</u>
Total Revenues	<u>16,656,703</u>	<u>1,508,841</u>	<u>1,288,235</u>	<u>998,495</u>	<u>193,017</u>	<u>20,452,274</u>
Expenses:						
Instruction	9,764,834	1,041,012	-	-	-	10,805,846
Student support services	703,224	3,650	-	-	-	706,874
Instructional support	1,137,690	343,952	-	-	-	1,481,642
District administration	754,160	-	-	-	-	754,160
School administration	970,550	-	-	-	-	970,550
Business support	177,894	-	-	-	-	177,894

Plant operations	1,842,779	-	-	-	-	1,842,779
Student transportation	836,155	12,692	-	-	-	848,847
Community support	16,331	107,535	-	-	-	123,866
Food services	34,170	-	-	1,140,889	-	1,175,059
Child care services	-	-	-	-	174,735	174,735
Facilities acquisition and construction	-	-	378,444	-	-	378,444
Debt service	49,808	-	1,252,219	-	-	1,302,027
Transfers	<u>79,773</u>	-	-	-	-	<u>79,773</u>
Total expenses	<u>16,367,368</u>	<u>1,508,841</u>	<u>1,630,663</u>	<u>1,140,889</u>	<u>174,735</u>	<u>20,822,496</u>
Revenues over (under) Expenses	<u>\$ 289,335</u>	<u>\$ -</u>	<u>\$ (342,428)</u>	<u>\$ (142,394)</u>	<u>\$ 18,282</u>	<u>\$ (177,205)</u>

BUDGETARY IMPLICATIONS FOR 2014-2015

In Kentucky, the public school fiscal year is July 1 - June 30; however, federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District anticipates adoption of a budget in September 2014 well in excess of the minimum. During the current year, the Commonwealth of Kentucky legislated pay raises for staff in both the 2014-2015 and 2015-2016 fiscal years. The funding increases are not enough to cover all costs that are part of the legislation. Apparently, the Commonwealth is depending on local tax collections to fund the salary mandate, coupled with the continued increases in the employer match portion of the Kentucky Teachers Retirement System school board. The District elected to maintain the current tax rate of the 2014-2015 year and utilize attrition and staff movement to accommodate the legislation.

During August 2014, the District received the results of the court action surrounding the dissolution of the Kentucky School Board Insurance Trust. The Trust failed during 2012 and districts across the state are now required to pay the deficit created by insurance claims beginning in the early 1990's. The total amount assessed to the District was \$274,421. The Board elected to pay the total in annual increments that will conclude August 31, 2020. The expense has previously been reported as an extraordinary item in the District's 2013 audited financial statements.

The District will develop a new fund during 2014-2015 for school activity accounting. Amounts received by the individual schools that are generated by clubs or athletics, along with associated expenditures, will be accounted for at the school level. All other receipts, such as student fees, will be accounted for at the District level. The assumption of the accounting for the aforementioned items has resulted in changes to the School Activity Fund manual created by the Kentucky Department of Education and legislated by the Commonwealth of Kentucky. Expenditures for staff and student supplies, along with professional development for staff cannot occur at the school level, but are allowable from the District. The fund will be restricted for the purpose of the individual school needs.

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

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

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 3,713,559	\$ 69,924	\$ 3,783,483
Receivables (net of allowances for uncollectibles):			
Property taxes	215,949	-	215,949
Other	17,660	-	17,660
Intergovernmental - federal	122,979	-	122,979
Inventories	-	16,212	16,212
Capital assets, not being depreciated	852,849	-	852,849
Capital assets, being depreciated, net	20,058,406	139,720	20,198,126
Total assets	<u>24,981,402</u>	<u>225,856</u>	<u>25,207,258</u>
Deferred Outflows of Resources			
Deferred savings from refunding bonds	63,015	-	63,015
Total deferred outflows of resources	<u>63,015</u>	<u>-</u>	<u>63,015</u>
Liabilities			
Accounts payable	201,141	2,527	203,668
Accrued payroll and employee benefits	112,326	-	112,326
Deferred revenue	232,449	-	232,449
Noncurrent liabilities:			
Portion due or payable within one year:			
Bond obligations	815,000	-	815,000
Notes payable	127,632	-	127,632
Portion due or payable after one year:			
Bond obligations	11,510,000	-	11,510,000
Notes payable	389,875	-	389,875
Accrued sick leave	288,694	-	288,694
Total liabilities	<u>13,677,117</u>	<u>2,527</u>	<u>13,679,644</u>
Net Position			
Net investment in capital assets	8,343,169	139,720	8,482,889
Restricted for:			
Capital projects	375,937	-	375,937
Other purposes	-	83,609	83,609
Unrestricted	2,648,194	-	2,648,194
Total net position	<u>\$ 11,367,300</u>	<u>\$ 223,329</u>	<u>\$ 11,590,629</u>

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 11,180,581	\$ 10,464	\$ 880,040	\$ -	\$ (10,290,077)	\$ -	\$ (10,290,077)
Support services:							
Students	733,311	-	-	-	(733,311)	-	(733,311)
Instructional staff	1,544,509	-	397,070	-	(1,147,439)	-	(1,147,439)
District administration	781,417	-	-	-	(781,417)	-	(781,417)
School administration	1,095,868	-	-	-	(1,095,868)	-	(1,095,868)
Business and other support services	231,738	-	-	-	(231,738)	-	(231,738)
Operation and maintenance of plant	2,230,318	-	10,548	-	(2,219,770)	-	(2,219,770)
Student transportation	791,908	-	10,755	-	(781,153)	-	(781,153)
Food service operations	36,869	-	-	-	(36,869)	-	(36,869)
Community services	128,138	-	106,354	-	(21,784)	-	(21,784)
Debt service	466,297	-	-	886,582	420,285	-	420,285
Total governmental activities	<u>19,220,954</u>	<u>10,464</u>	<u>1,404,767</u>	<u>886,582</u>	<u>(16,919,141)</u>	<u>-</u>	<u>(16,919,141)</u>
Business-type activities:							
Food service	1,069,322	383,864	648,442	-	-	(37,016)	(37,016)
Child care fund	188,121	151,552	20,503	-	-	(16,066)	(16,066)
Total business-type activities	<u>1,257,443</u>	<u>535,416</u>	<u>668,945</u>	<u>-</u>	<u>-</u>	<u>(53,082)</u>	<u>(53,082)</u>
Total primary government	<u>\$ 20,478,397</u>	<u>\$ 545,880</u>	<u>\$ 2,073,712</u>	<u>\$ 886,582</u>	<u>\$ (16,919,141)</u>	<u>\$ (53,082)</u>	<u>\$ (16,972,223)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 5,105,302	\$ -	\$ 5,105,302
Motor vehicle					562,873	-	562,873
Utilities					1,014,161	-	1,014,161
Intergovernmental revenues:							
State					10,783,305	-	10,783,305
Investment earnings					13,757	-	13,757
Gain on disposal of capital assets					623	-	623
Other local revenues					13,657	-	13,657
Total general revenues					<u>17,493,678</u>	<u>-</u>	<u>17,493,678</u>
Transfers					42,018	(42,018)	-
Change in net position					616,555	(95,100)	521,455
Net position, June 30, 2013, as restated					<u>10,750,745</u>	<u>318,429</u>	<u>11,069,174</u>
Net position, June 30, 2014					<u>\$ 11,367,300</u>	<u>\$ 223,329</u>	<u>\$ 11,590,629</u>

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

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

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 3,228,152	\$ 109,470	\$ 375,937	\$ 3,713,559
Due from other funds	-	-	-	-
Receivables (net of allowances for uncollectibles):				
Taxes - current	201,887	-	-	201,887
Taxes - delinquent	14,062	-	-	14,062
Other	17,660	-	-	17,660
Intergovernmental - Federal	-	122,979	-	122,979
Total assets	<u>\$ 3,461,761</u>	<u>\$ 232,449</u>	<u>\$ 375,937</u>	<u>\$ 4,070,147</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 201,141	\$ -	\$ -	\$ 201,141
Accrued payroll and employee benefits	112,326	-	-	112,326
Due to other funds	-	-	-	-
Deferred revenue	-	232,449	-	232,449
Total liabilities	<u>313,467</u>	<u>232,449</u>	<u>-</u>	<u>545,916</u>
Fund balances:				
Committed	97,627	-	-	97,627
Restricted	-	-	375,937	375,937
Assigned	144,347	-	-	144,347
Unassigned	2,906,320	-	-	2,906,320
Total fund balances	<u>3,148,294</u>	<u>-</u>	<u>375,937</u>	<u>3,524,231</u>
Total liabilities and fund balances	<u>\$ 3,461,761</u>	<u>\$ 232,449</u>	<u>\$ 375,937</u>	<u>\$ 4,070,147</u>

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

**RUSSELL INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Fund balances—total governmental funds \$ 3,524,231

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. 20,911,255

Savings from refunding bonds are not available to pay current period expenditures and therefore, are not reported in the governmental funds. 63,015

Some liabilities, including bonds payable, notes payable and accrued sick leave are not due and payable in the current period and therefore, are not reported in the governmental funds. (13,131,201)

Net position of governmental activities \$ 11,367,300

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

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes -				
Property	\$ 4,710,013	\$ -	\$ 395,289	\$ 5,105,302
Motor vehicles	562,873	-	-	562,873
Utilities	1,014,161	-	-	1,014,161
Tuition and fees	6,855	3,609	-	10,464
Interest income	13,756	-	1	13,757
Other local revenues	13,657	89,057	-	102,714
Intergovernmental - State	10,783,305	451,919	886,582	12,121,806
Intergovernmental - Indirect federal	-	802,372	-	802,372
Intergovernmental - Direct federal	-	61,419	-	61,419
Total revenues	<u>17,104,620</u>	<u>1,408,376</u>	<u>1,281,872</u>	<u>19,794,868</u>
Expenditures:				
Current:				
Instruction	9,707,850	920,635	-	10,628,485
Support services:				
Students	733,071	-	-	733,071
Instructional staff	1,147,439	397,070	-	1,544,509
District administration	760,812	-	-	760,812
School administration	1,092,248	-	-	1,092,248
Business and other support services	231,518	-	-	231,518
Operation and maintenance of plant	2,015,524	10,548	-	2,026,072
Student transportation	752,590	10,755	-	763,345
Food service operation	36,869	-	-	36,869
Community services	21,784	106,354	-	128,138
Facilities acquisition and construction	-	-	412,495	412,495
Debt service	60,323	-	1,248,057	1,308,380
Total expenditures	<u>16,560,028</u>	<u>1,445,362</u>	<u>1,660,552</u>	<u>19,665,942</u>
Excess (deficiency) of revenues over expenditures	<u>544,592</u>	<u>(36,986)</u>	<u>(378,680)</u>	<u>128,926</u>
Other financing sources (uses):				
Proceeds from sale of equipment	664	-	-	664
Transfers in	42,018	36,986	1,492,667	1,571,671
Transfers out	(638,898)	-	(890,755)	(1,529,653)
Total other financing sources and uses	<u>(596,216)</u>	<u>36,986</u>	<u>601,912</u>	<u>42,682</u>
Net change in fund balances	(51,624)	-	223,232	171,608
Fund balances, June 30, 2013	<u>3,199,918</u>	<u>-</u>	<u>152,705</u>	<u>3,352,623</u>
Fund balances, June 30, 2014	<u>\$ 3,148,294</u>	<u>\$ -</u>	<u>\$ 375,937</u>	<u>\$ 3,524,231</u>

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

**RUSSELL INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Net change in fund balances - total governmental funds	\$	171,608
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay	552,334	
Net book value of assets sold	(41)	
Depreciation expense	<u>(990,246)</u>	(437,953)
<p>Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for accrued sick leave, capitalized savings from bond refundings, amortization expense and the KSBIT assessment.</p>		
		40,817
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		
		<u>842,083</u>
Change in net position of governmental activities	<u>\$</u>	<u>616,555</u>

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

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

	Food Service Fund	Child Care Fund	Total Proprietary Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 65,850	\$ 4,074	\$ 69,924
Inventories	16,212	-	16,212
Total current assets	<u>82,062</u>	<u>4,074</u>	<u>86,136</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	139,720	-	139,720
Total noncurrent assets	<u>139,720</u>	<u>-</u>	<u>139,720</u>
 Total assets	 <u>\$ 221,782</u>	 <u>\$ 4,074</u>	 <u>\$ 225,856</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 1,710	\$ 817	\$ 2,527
Total current liabilities	<u>1,710</u>	<u>817</u>	<u>2,527</u>
Total liabilities	<u>1,710</u>	<u>817</u>	<u>2,527</u>
Net Position			
Invested in capital assets	139,720	-	139,720
Restricted	80,352	3,257	83,609
Total net position	<u>\$ 220,072</u>	<u>\$ 3,257</u>	<u>\$ 223,329</u>

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

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

	Food Service Fund	Child Care Fund	Total Proprietary Funds
Operating revenues:			
Lunchroom sales	\$ 383,808	\$ -	\$ 383,808
Other revenue	56	151,552	151,608
Total operating revenues	<u>383,864</u>	<u>151,552</u>	<u>535,416</u>
Operating expenses:			
Salaries and wages	335,107	112,832	447,939
Employee benefits	137,467	47,767	185,234
Contract services	19,259	477	19,736
Materials and supplies	553,292	27,045	580,337
Depreciation	24,197	-	24,197
Total operating expenses	<u>1,069,322</u>	<u>188,121</u>	<u>1,257,443</u>
Operating income loss	<u>(685,458)</u>	<u>(36,569)</u>	<u>(722,027)</u>
Nonoperating revenues (expenses) :			
Federal grants	503,025	-	503,025
Donated commodities	75,794	-	75,794
State grants	69,623	20,503	90,126
Total nonoperating revenue	<u>648,442</u>	<u>20,503</u>	<u>668,945</u>
Transfers out	<u>-</u>	<u>(42,018)</u>	<u>(42,018)</u>
Increase (decrease) in net position	(37,016)	(58,084)	(95,100)
Net position, June 30, 2013	<u>257,088</u>	<u>61,341</u>	<u>318,429</u>
Net position, June 30, 2014	<u>\$ 220,072</u>	<u>\$ 3,257</u>	<u>\$ 223,329</u>

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

**RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2014**

	<u>Food Service Fund</u>	<u>Child Care Fund</u>	<u>Total Proprietary Funds</u>
Cash flows from operating activities:			
Cash received from:			
Lunchroom sales	\$ 383,808	\$ -	\$ 383,808
Other operating revenues	1,806	151,552	153,358
Cash paid to/for:			
Payments to suppliers and providers of goods and services	(493,475)	(26,778)	(520,253)
Payments to employees	(412,650)	(140,096)	(552,746)
Net cash used for operating activities	<u>(520,511)</u>	<u>(15,322)</u>	<u>(535,833)</u>
Cash flows from noncapital financing activities:			
Transfers to other funds	-	(42,018)	(42,018)
Governmental grants	512,724	-	512,724
Net cash provided by (used for) noncapital financing activities	<u>512,724</u>	<u>(42,018)</u>	<u>470,706</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	-	-	-
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Net decrease in cash and cash equivalents	(7,787)	(57,340)	(65,127)
Cash and cash equivalents, June 30, 2013	<u>73,637</u>	<u>61,414</u>	<u>135,051</u>
Cash and cash equivalents, June 30, 2014	<u>\$ 65,850</u>	<u>\$ 4,074</u>	<u>\$ 69,924</u>
Reconciliation of operating loss to net cash used for operating activities:			
Operating loss	\$ (685,458)	\$ (36,569)	\$ (722,027)
Adjustments to reconcile operating loss to net cash used for operating activities:			
Depreciation	24,197	-	24,197
Donated commodities	75,794	-	75,794
On-behalf payments	59,924	20,503	80,427
Change in assets and liabilities:			
Inventories	1,716	-	1,716
Accounts receivable	1,750	-	1,750
Accounts payable	1,566	744	2,310
Net cash used for operating activities	<u>\$ (520,511)</u>	<u>\$ (15,322)</u>	<u>\$ (535,833)</u>
Non-cash items:			
Donated commodities	\$ 75,794	\$ -	\$ 75,794
On-behalf payments	59,924	20,503	80,427

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

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

	Scholarship Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 105,260	\$ 193,489
Accounts receivable	-	-
Total assets	\$ 105,260	\$ 193,489
 Liabilities		
Accounts payable	\$ -	\$ 527
Due to students	-	192,962
Total liabilities	-	193,489
 Net position held in trust	 \$ 105,260	 \$ -

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

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

	Scholarship Funds
Additions -	
Contributions	\$ 5,850
Interest Income	4,516
	10,366
Deductions -	
Benefits paid	26,579
	26,579
Change in Net Position	(16,213)
Net Position June 30, 2013	121,473
Net Position June 30, 2014	\$ 105,260

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

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes -				
Property	\$ 4,306,000	\$ 4,506,000	\$ 4,710,013	\$ 204,013
Motor vehicles	490,000	490,000	562,873	72,873
Utilities	780,000	780,000	1,014,161	234,161
Interest income	10,000	10,000	13,756	3,756
Tuition and fees	-	-	6,855	6,855
Other local revenues	-	1,200	13,657	12,457
Intergovernmental - State	10,543,278	10,519,747	10,783,305	263,558
Total revenues	<u>16,129,278</u>	<u>16,306,947</u>	<u>17,104,620</u>	<u>797,673</u>
Expenditures:				
Current:				
Instruction	9,575,343	9,526,993	9,707,850	(180,857)
Support services:				
Students	715,265	726,405	733,071	(6,666)
Instructional staff	1,115,282	1,193,185	1,147,439	45,746
District administration	825,206	792,523	760,812	31,711
School administration	957,944	1,155,832	1,092,248	63,584
Business and other support services	183,399	188,455	231,518	(43,063)
Operation and maintenance of plant	1,955,088	2,007,049	2,015,524	(8,475)
Student transportation	764,898	798,455	752,590	45,865
Food service operations	40,246	39,714	36,869	2,845
Community services	18,252	23,856	21,784	2,072
Contingency	2,885,855	2,276,333	-	2,276,333
Debt service	60,000	60,135	60,323	(188)
Total expenditures	<u>19,096,778</u>	<u>18,788,935</u>	<u>16,560,028</u>	<u>2,228,907</u>
Excess (deficiency) of revenues over expenditures	<u>(2,967,500)</u>	<u>(2,481,988)</u>	<u>544,592</u>	<u>3,026,580</u>
Other financing sources (uses):				
Proceeds from sale of equipment	-	-	664	664
Transfers in	5,000	42,018	42,018	
Transfers out	(37,500)	(632,912)	(638,898)	(5,986)
Total other financing sources and uses	<u>(32,500)</u>	<u>(590,894)</u>	<u>(596,216)</u>	<u>(5,322)</u>
Net change in fund balances	(3,000,000)	(3,072,882)	(51,624)	3,021,258
Fund balances, June 30, 2013	<u>3,000,000</u>	<u>3,072,882</u>	<u>3,199,918</u>	<u>(127,036)</u>
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,148,294</u>	<u>\$ 2,894,222</u>

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

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues:				
Student Fees	\$ 3,200	\$ 3,200	\$ 3,609	\$ 409
Other local revenues	96,856	73,574	89,057	15,483
Intergovernmental - State	321,295	476,569	451,919	(24,650)
Intergovernmental - Indirect federal	756,604	784,302	802,372	18,070
Intergovernmental - Direct federal	62,680	63,306	61,419	(1,887)
Total revenues	<u>1,240,635</u>	<u>1,400,951</u>	<u>1,408,376</u>	<u>7,425</u>
Expenditures:				
Current:				
Instruction	774,477	870,949	920,635	(49,686)
Support services:				
Instructional staff	346,639	374,170	397,070	(22,900)
Operation and maintenance of plant	-	78,990	10,548	68,442
Student transportation	45,482	14,021	10,755	3,266
Community services	106,537	102,821	106,354	(3,533)
Total expenditures	<u>1,273,135</u>	<u>1,440,951</u>	<u>1,445,362</u>	<u>(4,411)</u>
Excess (deficiency) of revenues over expenditures	<u>(32,500)</u>	<u>(40,000)</u>	<u>(36,986)</u>	<u>3,014</u>
Other financing sources (uses):				
Transfers in	32,500	40,000	36,986	(3,014)
Transfers out	-	-	-	-
Total other financing sources and uses	<u>32,500</u>	<u>40,000</u>	<u>36,986</u>	<u>(3,014)</u>
Net change in fund balances	-	-	-	-
Fund balances, June 30, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

RUSSELL INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

(1) REPORTING ENTITY

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

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

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

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

Russell Independent School District Finance Corporation

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

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

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

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

Basis of Presentation

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

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

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

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

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

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

I. Governmental Fund Types

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

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The School Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction expenditures.

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

II. Proprietary Funds (Enterprise Fund)

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

III. Fiduciary Fund Types

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

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

Basis of Accounting

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

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

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

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

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

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

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

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. The assessed value of property upon which the levy for the 2014 fiscal year was based was \$790,577,790.

The tax rates assessed for the year ended June 30, 2014 to finance general fund operations were \$.756 on real estate and \$.756 per \$100 valuation on tangible property.

Taxes are due on October 1 and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2014 were 94% of the tax levy for real and tangible personal property.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2014. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements resulting from encumbrances.

Cash and Cash Equivalents

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

Inventories

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

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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

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

Interfund Balances

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

Budgetary Process

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Reserves

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

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

Net Position

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

Operating Revenues and Expenses

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

Interfund Activity

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

Estimates

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

(3) CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>June 30, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Land	\$ 460,688	\$ -	\$ -	\$ 460,688
Land improvements	1,965,278	92,012	-	2,057,290
Buildings and improvements	27,627,506	-	-	27,627,506
Technology equipment	2,158,342	11,429	(50,743)	2,119,028
General equipment	761,198	28,319	-	789,517
Vehicles	1,673,484	28,413	-	1,701,897
Construction in progress	-	392,161	-	392,161
Totals at historical cost	<u>34,646,496</u>	<u>552,334</u>	<u>(50,743)</u>	<u>35,148,087</u>
Less: accumulated depreciation -				
Land improvements	(1,329,583)	(59,787)	-	(1,389,370)
Buildings and improvements	(8,532,945)	(624,282)	-	(9,157,227)
Technology equipment	(1,666,012)	(192,880)	50,702	(1,808,190)
Vehicles	(1,364,452)	(62,459)	-	(1,426,911)
General equipment	(404,296)	(50,838)	-	(455,134)
Total accumulated depreciation	<u>(13,297,288)</u>	<u>(990,246)</u>	<u>50,702</u>	<u>(14,236,832)</u>
Governmental Activities Capital Assets-Net	<u>\$ 21,349,208</u>	<u>\$ (437,912)</u>	<u>\$ (41)</u>	<u>\$ 20,911,255</u>
<u>Business-Type Activities</u>				
Food service land improvements	\$ 2,350	\$ -	\$ -	\$ 2,350
Food service equipment	580,058	-	-	580,058
Technology equipment	33,971	-	-	33,971
Totals at historical cost	<u>616,379</u>	<u>-</u>	<u>-</u>	<u>616,379</u>
Less: accumulated depreciation -				
Land improvements	(950)	(117)	-	(1,067)
Equipment	(426,019)	(20,338)	-	(446,357)
Technology equipment	(25,493)	(3,742)	-	(29,235)
Total accumulated depreciation	<u>(452,462)</u>	<u>(24,197)</u>	<u>-</u>	<u>(476,659)</u>
Business-Type Activities Capital Assets-Net	<u>\$ 163,917</u>	<u>\$ (24,197)</u>	<u>\$ -</u>	<u>\$ 139,720</u>

Depreciation expense is allocated to governmental functions as follows:

Instruction	\$ 650,491
Student support services	240
District administration	20,605
School administration	3,620
Plant operation and maintenance	258,094
Student transportation	56,976
Business support services	220
	<u>\$ 990,246</u>

(4) RETIREMENT PLANS

A. Kentucky Teachers Retirement System:

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

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

Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky contributes matching contributions at the rate of 13.105% for members hired before July 1, 2008 and 14.105% for members hired after July 1, 2008. The Federal program that pays for salaries pays 14.605% matching contributions.

The Russell Independent Schools payroll for employees covered under KTRS was \$9,287,293. For the year ended June 30, 2014, the Commonwealth of Kentucky contributed \$1,201,405 to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the years ending June 30, 2012, 2013 and 2014 were \$137,478, \$138,365 and \$174,238, respectively, which represents the required contributions for those employees covered by Federal programs for each year and contributions under the shared responsibility plan.

B. County Employee's Retirement System:

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

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

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to contribute 18.89% of the employee's total compensation. Plan members hired after June 30, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS members and the District are established and may be amended by the CERS Board of Trustees. The District's contributions to CERS for the years ending June 30, 2012, 2013 and 2014, were \$426,427, \$450,287 and \$436,024, respectively, equal to the required contributions for the year.

C. Medical Insurance Plan:

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

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

Funding policy - In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 2.25% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.5% of members' salary for the 2013-2014 fiscal year.

(5) ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2014, this amount totaled \$288,694 for those employees with five or more years of experience and who have reached the age of 55. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

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

(6) COMMITMENTS AND CONTINGENCIES

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

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

(7) CASH AND CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT

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

At June 30, 2014, the carrying amounts of the District's deposits were \$4,082,232 and the bank balances were \$4,545,589. Of the total bank balances, \$290,653 was insured by the FDIC, and \$4,254,936 was secured by collateral held by the pledging banks in the District's name.

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

(8) DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make lease payments relating to bonds issued by the Russell Independent School District Finance Corporation aggregating \$17,200,000, and notes issued by the Russell Independent School District to the Kentucky Interlocal School Transportation Association ("KISTA") in the original amount of \$498,696.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2012	\$ 1,780,000	1.15% - 2.40%
2011	5,320,000	1.00% - 4.63%
2010	810,000	2.00% - 4.00%
2009	925,000	1.75% - 3.60%
2006	3,750,000	3.75% - 4.00%
2004	4,615,000	2.50% - 3.75%
Various (KISTA)	498,696	1.00% - 4.00%
2014 KSBIT	274,421	0.00%

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

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

<u>Description</u>	<u>Balance at June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2014</u>
General obligation bonds - \$17,200,000 originally issued with interest rates ranging from 1.00% to 4.63%	\$ 13,115,000	\$ -	\$ (790,000)	\$ 12,325,000
KISTA notes payable	295,169	-	(52,083)	243,086
KSBIT liability	357,591	-	(83,170)	274,421
Accumulated unpaid sick leave	254,072	34,622	-	288,694
	<u>\$ 14,021,832</u>	<u>\$ 34,622</u>	<u>\$ (925,253)</u>	<u>\$ 13,131,201</u>

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

The bonds may be called prior to maturity at redemption premiums as specified in each issue. Assuming no issues are called prior to scheduled maturity and that the Kentucky School Facilities Construction Commission continues to renew its agreement, the minimum obligations at June 30, 2014 for debt service (principal and interest) are as follows:

Bonds					
Year	Kentucky School Facilities Construction Commission		Russell Independent School District		Total
	Principal	Interest	Principal	Interest	
2015	\$ 240,048	\$ 117,254	\$ 574,952	\$ 315,715	\$ 1,247,969
2016	247,437	109,865	592,563	296,225	1,246,090
2017	255,630	101,671	569,370	272,744	1,199,415
2018	264,141	93,161	585,859	259,430	1,202,591
2019	273,354	83,948	601,646	243,288	1,202,236
2020-24	918,343	304,636	3,096,657	932,834	5,252,470
2025-29	789,351	123,627	2,325,649	427,111	3,665,738
2030-31	204,533	14,242	785,467	50,333	1,054,575
	<u>\$ 3,192,837</u>	<u>\$ 948,404</u>	<u>\$ 9,132,163</u>	<u>\$ 2,797,680</u>	<u>\$ 16,071,084</u>

Notes and KSBIT			
Year	Principal	Interest	Total
2015	\$ 127,632	\$ 6,571	\$ 134,203
2016	94,256	5,270	99,526
2017	87,884	3,960	91,844
2018	54,520	2,886	57,406
2019	46,233	2,017	48,250
2020-23	106,982	2,910	109,892
	<u>\$ 517,507</u>	<u>\$ 23,614</u>	<u>\$ 541,121</u>

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during fiscal year 2013 that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On May 13, 2014, the court approved the plan of assessment tendered by KSBIT and approved the Loss Portfolio Transfer to Kentucky Employers Mutual Insurance (“KEMI”). As a result the District’s portion of the liability was estimated at \$274,421. The District took the option of paying 25% down by August 31, 2014 and financing the remaining balance over 6 years to be paid in equal annual installments beginning August 31, 2015 with no interest.

(9) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, the District carries their insurance with Kentucky Employers' Mutual Insurance (KEMI), which is located in Lexington Kentucky. KEMI is a mutual insurance company regulated by the Kentucky Department of Insurance. The District pays annual premiums for their coverage. The premium for workers' compensation is based on a formula. The District is assigned a classification code for their industry and each classification code has a corresponding rate. Multiplying the rate times the estimated payroll for operations then dividing by 100 will give the base premium. In some cases, modifiers may also be added, based on eligibility, which may increase or decrease the premium. In other cases, additional coverages may be requested that increase the premium.

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) COBRA

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

(11) TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Matching	\$ 36,986
Operating	FSPK Fund	Debt Service	Debt Service	690,848
Operating	SEEK	Debt Service	Debt Service	199,907
Operating	Child Care	General	Reimbursement	42,018
Operating	General	Construction	Construction	601,912

(12) ON-BEHALF PAYMENTS

For fiscal year 2014, the Commonwealth of Kentucky contributed payments on behalf of the Russell Independent School District as follows:

<u>Plan / Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$ 1,201,405
Health Insurance Plan, Flexible Spending Plan, and Administrative Life Insurance Plan	1,680,180
Technology	53,659
Debt Service	357,302
	<u>\$ 3,292,546</u>

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

(13) CHANGES IN BEGINNING NET POSITION

Governmental Accounting Standards Board No. 65 required changes to the beginning balances of the Statement of Net Position. Beginning net position of the governmental activities was increased \$70,746 to capitalize the deferred savings from refunding bonds issued prior to the 2013-2014 fiscal year.

(14) NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The District adopted GASB 65 for the year ended June 30, 2014. See Note 13.

The Governmental Accounting Standards Board (GASB) issued GASB No. 68, *Accounting and Financial Reporting for Pensions*, which changes the way pensions are reported on the financial statements of employers. Employers participating in a multiple-employer cost-sharing plan will be required to report net pension liability on the entity-wide statements for their proportionate share of the liability. Districts will be required to record net pension liability for their share of the liability associated with employees participating in County Employees Retirement

System (CERS) as well as any district-sponsored pension plans. There will be little to no impact on the balance sheets of the governmental funds. Additional note disclosures and required supplementary information (RSI) also are addressed in the standard. Kentucky Department of Education will be working with KTRS and Kentucky Retirement Systems in the months ahead to provide guidance for the implementation issues facing school districts. The standard is effective for fiscal year ending June 30, 2015.

SUPPLEMENTAL INFORMATION

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

	SEEK Fund	FSPK Funds	Construction Fund	Debt Service Funds	Total Non-Major Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ -	\$ 71,465	\$ 304,472	\$ -	\$ 375,937
Total assets	\$ -	\$ 71,465	\$ 304,472	\$ -	\$ 375,937
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-	-
Fund Balances:					
Restricted	-	71,465	304,472	-	375,937
Total fund balance	-	71,465	304,472	-	375,937
Total liabilities and fund balances	\$ -	\$ 71,465	\$ 304,472	\$ -	\$ 375,937

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

	SEEK Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES:					
From local sources -					
Property taxes	\$ -	\$ 395,289	\$ -	\$ -	\$ 395,289
Interest income	-	-	1	-	1
Intergovernmental - State	199,907	329,373	-	357,302	886,582
Total revenues	<u>199,907</u>	<u>724,662</u>	<u>1</u>	<u>357,302</u>	<u>1,281,872</u>
EXPENDITURES:					
Debt service	-	-	-	1,248,057	1,248,057
Facilities acquisition and construction	-	-	412,495	-	412,495
Total expenditures	<u>-</u>	<u>-</u>	<u>412,495</u>	<u>1,248,057</u>	<u>1,660,552</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>199,907</u>	<u>724,662</u>	<u>(412,494)</u>	<u>(890,755)</u>	<u>(378,680)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	-	-	601,912	890,755	1,492,667
Operating transfers out	(199,907)	(690,848)	-	-	(890,755)
Total other financing sources (uses)	<u>(199,907)</u>	<u>(690,848)</u>	<u>601,912</u>	<u>890,755</u>	<u>601,912</u>
NET CHANGE IN FUND BALANCE	-	33,814	189,418	-	223,232
FUND BALANCE June 30, 2013	<u>-</u>	<u>37,651</u>	<u>115,054</u>	<u>-</u>	<u>152,705</u>
FUND BALANCE June 30, 2014	<u>\$ -</u>	<u>\$ 71,465</u>	<u>\$ 304,472</u>	<u>\$ -</u>	<u>\$ 375,937</u>

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

	2004 Bond Fund	2006 Bond Fund	2009 Bond Fund	2010 Bond Fund	2011 Bond Fund	2012 Bond Fund	Totals Debt Service Fund
REVENUES:							
Intergovernmental - State	\$ -	\$ 138,952	\$ 109,925	\$ -	\$ 108,425	\$ -	\$ 357,302
Total revenues	<u>-</u>	<u>138,952</u>	<u>109,925</u>	<u>-</u>	<u>108,425</u>	<u>-</u>	<u>357,302</u>
EXPENDITURES:							
Debt service	540,337	216,942	109,925	34,275	258,237	88,341	1,248,057
Total expenditures	<u>540,337</u>	<u>216,942</u>	<u>109,925</u>	<u>34,275</u>	<u>258,237</u>	<u>88,341</u>	<u>1,248,057</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(540,337)</u>	<u>(77,990)</u>	<u>-</u>	<u>(34,275)</u>	#####	<u>(88,341)</u>	<u>(890,755)</u>
OTHER FINANCING SOURCES (USES):							
Operating transfers in	540,337	77,990	-	34,275	149,812	88,341	890,755
Total other financing sources (uses)	<u>540,337</u>	<u>77,990</u>	<u>-</u>	<u>34,275</u>	<u>149,812</u>	<u>88,341</u>	<u>890,755</u>
NET CHANGE IN FUND BALANCE	-	-	-	-	-	-	-
FUND BALANCE June 30, 2013	<u>-</u>						
FUND BALANCE June 30, 2014	<u>\$ -</u>						

**RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Cash Balance June 30, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable	Accounts Payable	Deposits Held in Custody for Students June 30, 2014
Russell High School	\$ 83,309	\$ 354,503	\$ 330,473	\$ 107,339	\$ -	\$ -	\$ 107,339
Russell Middle School	38,620	188,695	184,906	42,409	-	-	42,409
Russell Primary School	29,954	54,146	58,681	25,419	-	-	25,419
Russell-McDowell Intermediate School	16,218	28,980	26,876	18,322	-	527	17,795
	<u>\$ 168,101</u>	<u>\$ 626,324</u>	<u>\$ 600,936</u>	<u>\$ 193,489</u>	<u>\$ -</u>	<u>\$ 527</u>	<u>\$ 192,962</u>

**RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
RUSSELL HIGH SCHOOL ACTIVITY AND SCHOLARSHIP FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Cash Balances June 30, 2013	Receipts	Disbursements	Cash Balances June 30, 2014	Accounts Receivable (Accounts Payable)	Cash and Deposits Held in Custody For Students June 30, 2014
Activity Funds:						
Academic Team	\$ 2,731	\$ -	\$ (216)	\$ 2,515	\$ -	\$ 2,515
Appalachian Trail	426	-	-	426	-	426
Archery	-	1,201	(1,201)	-	-	-
Art/ T Botts	90	399	(71)	418	-	418
Arts & Humanities	-	140	(140)	-	-	-
Athletics	-	12,813	(3,026)	9,787	-	9,787
Band	55	3,820	(2,637)	1,238	-	1,238
Baseball	-	6,669	(6,669)	-	-	-
Beta Club	606	11,144	(10,590)	1,160	-	1,160
Bio Tech Grant	3,000	-	-	3,000	-	3,000
Boys Basketball	-	10,046	(10,046)	-	-	-
Boys Basketball Camp	441	7,430	(7,841)	30	-	30
Boys Golf	-	3,001	(3,001)	-	-	-
Boys Soccer	-	5,407	(5,407)	-	-	-
Boys Tennis	-	1,000	(1,000)	-	-	-
Boys Tennis Camp	138	-	-	138	-	138
Boys Track	-	1,641	(1,641)	-	-	-
Boys/Girls Basketball Camp	-	4,780	(4,780)	-	-	-
Boys/Girls State	100	-	-	100	-	100
Boys/Girls Swimming	-	1,765	(1,765)	-	-	-
Boys/Girls Track Camp	363	-	-	363	-	363
Choir	2,670	2,558	(3,204)	2,024	-	2,024
Cross County	-	4,586	(4,586)	-	-	-
District Basketball	-	23,292	(23,292)	-	-	-
Downs Syndrome	257	3	(188)	72	-	72
Ed Enhancement	15,829	20,075	(11,300)	24,604	-	24,604
English	35	326	(204)	157	-	157
Faculty Lounge	14	421	(435)	-	-	-
FHA/FCCLA	828	999	(671)	1,156	-	1,156
Football	-	53,561	(53,561)	-	-	-
Foreign Language	17	-	-	17	-	17
French Club	52	-	-	52	-	52
Garden Club	-	275	-	275	-	275
General Fund	7,299	12,734	(8,125)	11,908	-	11,908
Girls Basketball	-	9,722	(9,722)	-	-	-
Girls Basketball Camp	2,167	4,020	(5,190)	997	-	997
Girls Golf	-	3,451	(3,451)	-	-	-
Girls Soccer	-	6,837	(6,837)	-	-	-
Girls Tennis	-	1,435	(1,435)	-	-	-
Girls Tennis Camp	630	1,866	(1,574)	922	-	922
Girls Track	-	2,649	(2,649)	-	-	-
Home Ec. / Salyer	2,676	1,891	(1,737)	2,830	-	2,830
International Club	42	-	-	42	-	42
Journalism	262	-	-	262	-	262
Key Club	2,407	720	(700)	2,427	-	2,427
Latin Club	4,058	2,600	(2,195)	4,463	-	4,463
Library	14	64	-	78	-	78
Literary Society	351	378	(725)	4	-	4
Marv Meredith Class	-	3,660	(2,160)	1,500	-	1,500
Math	101	148	(151)	98	-	98
National Honor Society	729	-	(85)	644	-	644
New Media	-	660	-	660	-	660

RUSSELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
RUSSELL HIGH SCHOOL ACTIVITY AND SCHOLARSHIP FUNDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balances June 30, 2013	Receipts	Disbursements	Cash Balances June 30, 2014	Accounts Receivable (Accounts Payable)	Cash and Deposits Held in Custody For Students June 30, 2014
Peer to Peer	69	117	(117)	69	-	69
Prom	258	8,350	(8,328)	280	-	280
Revilonian	12,346	10,679	(15,914)	7,111	-	7,111
Science - Aldrich	1,290	180	(495)	975	-	975
Science - Barnett	4,077	455	(434)	4,098	-	4,098
Science - House	508	165	(401)	272	-	272
Science - V Stevens	587	330	(324)	593	-	593
Science - Romero	1,523	330	(5)	1,848	-	1,848
Science - Hill	1,569	345	-	1,914	-	1,914
Science Olympiad	4,205	3,315	(4,197)	3,323	-	3,323
Science/GE Star Award	500	-	-	500	-	500
Senior Salute	1,009	970	-	1,979	-	1,979
Service Learning Grant	152	-	-	152	-	152
Social Studies	43	504	(508)	39	-	39
Softball	-	16,632	(16,632)	-	-	-
Spanish Honor Society	100	-	-	100	-	100
Special Ed	4	10	-	14	-	14
Speech and Drama	673	300	(50)	923	-	923
Sports Change	-	21,600	(21,600)	-	-	-
Sports Medicine	-	1,608	(1,608)	-	-	-
Starbucks Volunteer	1,000	-	-	1,000	-	1,000
Student Awards	-	400	-	400	-	400
Student Government	1,420	2,744	(3,143)	1,021	-	1,021
Testing	3,580	16,270	(15,777)	4,073	-	4,073
Technology	-	2,280	-	2,280	-	2,280
Trim Fees	-	25,202	(25,202)	-	-	-
Volleyball	-	11,530	(11,530)	-	-	-
Youth Literacy Grant	8	-	-	8	-	8
	<u>\$ 83,309</u>	<u>\$ 354,503</u>	<u>\$ (330,473)</u>	<u>\$ 107,339</u>	<u>\$ -</u>	<u>\$ 107,339</u>
Scholarship Funds:						
Barbara Green Scholarship	\$ 4,069	\$ 7	\$ (2,000)	\$ 2,076	-	-
Bennett Lake Memorial Scholarship	26,594	6,317	(2,000)	30,911	-	-
Beta Club Scholarship	1,127	4	(1,000)	131	-	-
Cameron Weis	10,601	7	(750)	9,858	-	-
Class of 1993	500	-	-	500	-	-
Clear Channel	2,800	500	(3,300)	-	-	-
Doris Webb Scholarship	625	-	(625)	-	-	-
Earl Mittendorf Scholarship	42,786	80	(6,000)	36,866	-	-
Eliza McKnight Fund	1,155	-	(419)	736	-	-
Hyatt Ward Scholarship	189	1	-	190	-	-
Ledford Scholarship	500	500	(500)	500	-	-
Marv Meredith	8,589	798	-	9,387	-	-
Mark & Teresa Stone	4,800	200	(2,000)	3,000	-	-
Pepsi-Cola Scholarship	2,500	1,000	(2,500)	1,000	-	-
Russell Independent Scholarship	7,597	945	(2,500)	6,042	-	-
Travis Roark Memorial Scholarship	1,385	-	(1,385)	-	-	-
Una Fern Menshouse Scholarship	5,656	7	(1,600)	4,063	-	-
	<u>\$ 121,473</u>	<u>\$ 10,366</u>	<u>\$ (26,579)</u>	<u>\$ 105,260</u>	<u>\$ -</u>	<u>\$ -</u>

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Agriculture</u>				
Passed through State Department of Education:				
Child Nutrition cluster:				
Cash Assistance				
National School Lunch Program	10.555	7750002-13	\$ -	\$ 69,166
National School Lunch Program	10.555	7750002-14	-	302,637
National School Breakfast Program	10.553	7760005-13	-	25,458
National School Breakfast Program	10.553	7760005-14	-	105,764
				<u>503,025</u> *
Passed through State Department of Agriculture:				
Non-Cash Assistance (Food Distribution)				
National School Lunch Program	10.555	057502-02	-	75,794
Total U.S. Department of Agriculture				<u>578,819</u>
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title I - Grants to Local Educational Agencies	84.010	3100002-12	324,465	40,957
Title I - Grants to Local Educational Agencies	84.010	3100002-13	296,615	227,930
				<u>268,887</u>
Special Education Cluster (IDEA):				
Special Education - Grants to States	84.027	3810002-12	407,373	35,309
Special Education - Grants to States	84.027	3810002-13	379,708	379,708
Special Education - Preschool Grants	84.173	3800002-13	17,754	17,480
				<u>432,497</u> *
Improving Teacher Quality State Grants	84.367	3230002-12	84,527	15,204
Improving Teacher Quality State Grants	84.367	3230002-13	80,876	63,048
				<u>78,252</u>
Vocational Education - Basic Grants to States	84.048	4621332-13	6,102	293
Vocational Education - Basic Grants to States	84.048	3710002-13	5,630	5,630
				<u>5,923</u>
Race to the Top	84.413A	3960002-11	14,143	4,625
				<u>4,625</u>
Passed through University of Kentucky:				
Reading Recovery: Scaling Up What Works	84.411A	4914	11,100	9,548
Reading Recovery: Scaling Up What Works	84.411A	4913	9,250	2,133
Reading Recovery: Scaling Up What Works	84.411A	4912	12,000	507
				<u>12,188</u>
Total U.S. Department of Education				<u>802,372</u>
<u>U.S. Department of Defense</u>				
Direct Programs -				
Basic, Applied, and Advanced Research in Science and Engineering	12.630	5044	63,306	61,419
Total U.S. Department of Defense				<u>61,419</u>
Total Expenditures of Federal Awards				<u>\$ 1,442,610</u>

*Denotes major program.

**RUSSELL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2014**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Russell Independent School District programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Russell Independent School District, it is not intended and does not present the financial position, changes in net position or cash flows of the District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2014, the District had total inventory of \$ 16,212.



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Russell Independent School District (the "District") as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 14, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated November 14, 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.

Kelley Anthony Smith Grofsky, PCL

November 14, 2014



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

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Russell Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Russell Independent School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

Kelley Anthony Smith Grady, PSC

November 14, 2014

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

(A) SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified _____ yes x none reported

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

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified _____ yes x none reported

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

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

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2014:

- Child Nutrition Cluster (10.553 and 10.555)
- IDEA, Special Education Cluster (84.027 and 84.173)

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

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

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

None noted in the current year.

(C) FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There were no findings in the current year.

**RUSSELL INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

There were no prior year audit findings.

**RUSSELL INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2014**

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



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

In planning and performing our audit of the financial statements of Russell Independent School District (the "District") as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated November 14, 2014, on the financial statements of the District.

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

Kelley Galloway Smith Goolsby, PSC

November 14, 2014

RUSSELL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

FOR THE YEAR ENDED JUNE 30, 2014

Activity Fund Purchases:

Condition: During our testing of activity fund expenses, we noted that gift cards were purchased with staff vending funds at Russell Middle School. Additionally, we noted that fax machine toner was purchased with vending funds at Russell-McDowell Intermediate School.

Criteria for Condition: The purchase of gift cards is prohibited by the 2013 Redbook, regardless of the source of funds. Also, fax machine toner is considered an operational expense and is prohibited from purchase with activity funds by the 2013 Redbook.

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

Effect of Condition: Noncompliance with 2013 Redbook provisions.

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

Management Response: The District has established a District Activity Fund to add assistance in accounting for expenditures that were formerly accounted for at the school level. Extended authorization of expenditures will then be required from the Chief Financial Officer and board members. Accounting for such expenditures at the District level allows more flexibility for the individual schools to spend monies on things such as supplies (toner) than what is given by the regulation from the Kentucky Department of Education's Accounting Procedures for Kentucky School Activity Funds (Redbook). The District recognizes that the purchase of gift cards is not permissible under the regulation. Such expenditures will not occur under the additional approval requirements. Also, the District provides training both internally and externally to help ensure compliance with the Redbook requirements.

Scholarship Fund Reconciliation - Russell High School

Condition: We noted that June 2014 scholarship receipts and disbursements totaling \$8,675 were not recorded in the scholarship funds for the fiscal year ended June 30, 2014.

Criteria for Condition: All receipts and disbursements should be recorded to accurately reflect the activity and balances of scholarship funds for the fiscal year.

Cause of Condition: This matter resulted from personnel waiting until the bank statement was received to record scholarship fund activity.

Effect of Condition: Scholarship fund activity and balances are not accurately recorded in the financial statements.

Recommendation for Correction: We recommend that scholarship fund receipts and disbursements be recorded from source documents, such as donation correspondence and award letters, in the period that the transaction occurs.

Management Response: The Chief Financial Officer of the District will assist the Russell High School bookkeeper in reconciling the scholarship accounts on a monthly basis.