

RUSSELL COUNTY SCHOOL DISTRICT

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

Year Ended June 30, 2012

RUSSELL COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2012

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities.....	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	12
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Fund Net Assets – Proprietary Funds.....	16
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	17
Statement of Cash Flows – Proprietary Funds.....	18
Statement of Fiduciary Net Assets – Fiduciary Funds	19
Notes to the Basic Financial Statements	20-35
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	36
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund.....	37

RUSSELL COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

Supplementary Information:

Combining Statements – Nonmajor Funds:

Combining Balance Sheet – Nonmajor Governmental Funds 38

Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Nonmajor Governmental Funds..... 39

Combining Statement of Fiduciary Net Assets – Fiduciary Funds..... 40

Schools:

Schedule of Assets, Cash Receipts and Disbursements, and Liabilities – All Schools..... 41

Schedule of Assets, Cash Receipts and Disbursements, and Liabilities – Russell County
High School..... 42

Schedule of Expenditures of Federal Awards.....43-45

Notes to Schedule of Expenditures of Federal Awards..... 46

Schedule of Findings and Questioned Costs47-48

Schedule of Prior Year Audit Findings..... 49

**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.....50-51**

**Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct
And Material Effect on Each Major Program and Internal Control over
Compliance in Accordance with OMB Circular A-13352-53**

Management Letter and Comments54-56

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Russell County School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 *Appendix I of the Independent Auditor's Contract - General Audit Requirements*, *Appendix II of the Independent Auditor's Contract - State Audit Requirements*, *Appendix III of the Independent Auditor's Contract - Audit Extension Request and Appendix IV of the Independent Auditor's Contract - Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2012, on our consideration of Russell County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 36 through 37 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Christian County School District's financial statements as a whole. The combining financial statements and school schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining financial statements, school schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with accounting standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Certified Public Accountants
October 19, 2012

REQUIRED SUPPLEMENTARY INFORMATION

**RUSSELL COUNTY SCHOOL DISTRICT – JAMESTOWN, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

The discussion and analysis of Russell County School District’s financial performance provides an overall review of the School District’s financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to review the School District’s financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the School District’s financial performance.

FINANCIAL HIGHLIGHTS

- The ending general fund cash balance was \$27 thousand. The general fund had a beginning cash balance of \$741 thousand.
- The General Fund had \$21.8 million in revenue, which primarily consisted of the state program (SEEK), state on-behalf payments and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there were \$22.5 million in General Fund expenditures.
- The General Fund fund balance decreased by \$607 thousand and the General Fund ended the year with a fund balance of \$128 thousand.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District’s bond debt decreased by \$1,435,000 during the current fiscal year.

USING THIS ANNUAL REPORT

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

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

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

The statement of activities presents information showing how the District’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$16.8 million as of June 30, 2012.

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

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

(Table 1)
Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 1,566,664	\$ 2,665,755	\$ 203,769	\$ 217,231	\$ 1,770,433	\$ 2,882,986
Capital Assets	<u>43,533,524</u>	<u>44,624,241</u>	<u>1,035,931</u>	<u>1,119,260</u>	<u>44,569,455</u>	<u>45,743,501</u>
Total Assets	<u>45,100,188</u>	<u>47,289,996</u>	<u>1,239,700</u>	<u>1,336,491</u>	<u>46,339,888</u>	<u>48,626,487</u>
Long-term Debt	27,072,402	28,869,472	-	-	27,072,402	28,869,472
Other Liabilities	<u>2,471,673</u>	<u>2,920,680</u>	<u>92</u>	<u>3,222</u>	<u>2,471,765</u>	<u>2,923,902</u>
Total Liabilities	<u>29,544,075</u>	<u>31,790,152</u>	<u>92</u>	<u>3,222</u>	<u>29,544,167</u>	<u>31,793,374</u>
Net Assets						
Investment in capital assets (net of debt)	16,625,190	16,062,670	1,035,931	1,119,260	17,661,121	17,181,930
Restricted	123,504	79,196	-	-	123,504	79,196
Unrestricted	<u>(1,192,581)</u>	<u>(642,002)</u>	<u>203,677</u>	<u>214,009</u>	<u>(988,904)</u>	<u>(427,993)</u>
Total Net Assets	<u>\$ 15,556,113</u>	<u>\$ 15,499,864</u>	<u>\$ 1,239,608</u>	<u>\$ 1,333,269</u>	<u>\$ 16,795,721</u>	<u>\$ 16,833,133</u>

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

The District paid \$1.4 million toward debt payments in 2012.

Comments on Budget Comparisons

- The District's total governmental revenues for the fiscal year ended June 30, 2012, excluding other financing sources, were \$28.1 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$4.9 million more than budget or approximately 29%. This includes on-behalf payments of \$4.7 million. Tax revenue was \$149 thousand more than budgeted.
- General fund budget expenditures to actual varied significantly in Instruction, Student Support, and District Administrative Support. The difference was because the District did not budget on-behalf payments in accordance with Kentucky Department of Education requirements

The following Table 2 presents a summary of changes in net assets for the fiscal years ended June 30, 2012 and 2011.

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
REVENUES:						
Program revenues:						
Charges for services	\$ 57,728	\$ 107,233	\$ 509,486	\$ 592,499	\$ 567,214	\$ 699,732
Operating grants and contributions	4,922,553	6,555,310	1,550,796	1,570,314	6,473,349	8,125,624
Capital grants and contributions	226,194	333,211	-	-	226,194	333,211
General revenues:						
Property taxes	4,672,547	4,542,378	-	-	4,672,547	4,542,378
Motor vehicle taxes	577,239	541,902	-	-	577,239	541,902
Utility taxes	1,135,292	1,287,497	-	-	1,135,292	1,287,497
Other taxes	8,630	12,018	-	-	8,630	12,018
Investment earnings	25,257	45,051	3,720	3,098	28,977	48,149
Gain on disposal of capital assets	880	8,743	-	-	880	8,743
State and formula grants	16,328,019	15,375,490	-	-	16,328,019	15,375,490
Miscellaneous	182,669	249,890	-	-	182,669	249,890
Total revenues	<u>28,137,008</u>	<u>29,058,723</u>	<u>2,064,002</u>	<u>2,165,911</u>	<u>30,201,010</u>	<u>31,224,634</u>
EXPENSES						
Program Activities						
Instruction	16,462,233	16,692,473	-	-	16,462,233	16,692,473
Student support	1,921,515	1,880,999	-	-	1,921,515	1,880,999
Instructional staff support	1,267,323	1,146,118	-	-	1,267,323	1,146,118
District administrative support	666,201	665,136	-	-	666,201	665,136
School administrative support	1,470,939	1,508,828	-	-	1,470,939	1,508,828
Business support	846,807	720,515	-	-	846,807	720,515
Plant operation and maintenance	2,113,806	2,139,195	-	-	2,113,806	2,139,195
Student transportation	1,914,300	2,023,282	-	-	1,914,300	2,023,282
Community service activities	309,528	308,875	-	-	309,528	308,875
Interest costs	1,146,648	1,265,479	-	-	1,146,648	1,265,479
Business-type Activities:						
Food service	-	-	2,119,122	2,067,351	2,119,122	2,067,351
FRC Childcare	-	-	-	113,628	-	113,628
Total expenses	<u>28,119,300</u>	<u>28,350,900</u>	<u>2,119,122</u>	<u>2,180,979</u>	<u>30,238,422</u>	<u>30,531,879</u>
Transfers	38,541	19,781	(38,541)	(19,781)	-	-
Increase (decrease) in net assets	<u>\$ 56,249</u>	<u>\$ 727,604</u>	<u>\$ (93,661)</u>	<u>\$ (34,849)</u>	<u>\$ (37,412)</u>	<u>\$ 692,755</u>

Governmental Activities

Instruction comprises 58% of governmental program expenses. Support services expenses make up 37% of government expenses. The remaining expense for interest and community service activities accounts for the remaining 5% of total government expense.

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

(Table 3)
Governmental Activities Total
Cost of Services

Net Cost of Services

	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Instruction	\$ 16,462,233	\$ 16,692,473	\$ 12,259,838	\$ 10,829,708
Support services	10,200,891	10,084,073	9,722,364	9,592,625
Community services	309,528	308,875	10,169	545
Interest costs	<u>1,146,648</u>	<u>1,265,479</u>	<u>920,454</u>	<u>932,268</u>
Total expenses	<u><u>\$ 28,119,300</u></u>	<u><u>\$ 28,350,900</u></u>	<u><u>\$ 22,912,825</u></u>	<u><u>\$ 21,355,146</u></u>

Business-Type Activities

The business-type activities are the food service operation. This program had total revenues of \$2,064,002 and expenses of \$2,119,122 for fiscal year 2012. Of the revenues, \$509,486 was charges for services, \$1,550,796 was from State and Federal grants and \$3,720 was investment earnings. The food service operation also transferred \$38,541 in indirect costs to the general fund.. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will increase the charges for this activity.

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$30,641,981 and expenditures and other financing uses of \$31,221,393.

General Fund-Budget Highlights

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

For the General Fund revenues were budgeted at \$16.8 million with actual amounts of \$21.7 million. Budgeted expenditures of \$17.5million compare with actual expenditures of \$22.5 million. The most significant fluctuation is for on-behalf payments of \$4.7 million.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012 the School District had \$44.6 million invested in land, buildings, vehicles, and equipment and \$43.5 million in governmental activities. Table 4 shows fiscal year 2012 and 2011 balances.

(Table 4)
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 1,229,925	\$ 1,268,192	\$ -	\$ -	\$ 1,229,925	\$ 1,268,192
Buildings and improvements	40,818,552	41,868,947	680,174	700,503	41,498,726	42,569,450
Technology	213,035	275,306	20,353	24,405	233,388	299,711
Vehicles	1,064,951	1,013,336	-	-	1,064,951	1,013,336
General equipment	207,061	198,460	335,404	394,352	542,465	592,812
Total	43,533,524	44,624,241	1,035,931	1,119,260	44,569,455	45,743,501
Construction in progress	-	-	-	-	-	-
Total	<u>\$ 43,533,524</u>	<u>\$ 44,624,241</u>	<u>\$ 1,035,931</u>	<u>\$ 1,119,260</u>	<u>\$ 44,569,455</u>	<u>\$ 45,743,501</u>

Table 5 shows changes in capital assets for the years ended June 30, 2012 and 2011.

(Table 5)
Change in Capital Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Beginning balance	\$ 44,624,241	\$ 45,981,062	\$ 1,119,260	\$ 1,177,702	\$ 45,743,501	\$ 47,158,764
Additions	391,559	171,107	4,118	26,624	395,677	197,731
Retirements	(2,540)	(922)	-	-	(2,540)	(922)
Depreciation	<u>(1,479,736)</u>	<u>(1,527,006)</u>	<u>(87,447)</u>	<u>(85,066)</u>	<u>(1,567,183)</u>	<u>(1,612,072)</u>
Ending balance	<u>\$ 43,533,524</u>	<u>\$ 44,624,241</u>	<u>\$ 1,035,931</u>	<u>\$ 1,119,260</u>	<u>\$ 44,569,455</u>	<u>\$ 45,743,501</u>

Debt

At June 30, 2012, the School District had \$26.3 million in bonds outstanding, of this amount \$1.4 million is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$1.5 million is due within one year of June 30, 2012.

District Challenges for the Future

As the District budgets in the future, the District is required to assume additional costs due to continued student growth without increased state funding due to the growth and various unfunded mandates. Because of these issues, long-term financial strategies will need to be implemented through the budgeting process.

The School District has experienced consistent growth in student enrollment. The School District has prepared for an increase in enrollment by building new schools and renovating and adding to existing schools. Newer facilities are expected to have reduced utility and maintenance costs.

The costs associated with growth have in the past been offset due to increased student enrollment producing additional state funding, and continued increases in business and residential property subject to tax within the School District. Our property tax base continues to grow; however our School District, like all Kentucky School Districts, is limited to a 4% annual growth in property tax revenue on existing property.

Additional factors concerning our School District's financial status include the implementation of various unfunded mandates. Examples include the Flex Fund accounts (Professional Development, Safe Schools, Preschool, Textbooks and Extended School Services). State funding for these programs does not meet our needs as a District. Therefore, local generated funds will have to address these areas. Also, the uncertainty of state budgeted revenue projections may impact our funding as well as future salary increases for personnel. Funding for this program is not equal to the mandates required by the Federal Government.

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

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District established a budget for 2012-13 with a 2% contingency. Significant Board action that impacts the finances includes pay increases for all employees, additional spending for facility repairs outside of bonded building and renovation projects, and continued funding of Board initiatives.

Contacting the School District's Financial Management

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

BASIC FINANCIAL STATEMENTS

RUSSELL COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

Assets	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<u>Current Assets</u>			
Cash and cash equivalents	\$ -	\$ 166,955	\$ 166,955
Inventory		31,791	31,791
Receivables:			
Taxes-current	127,622		127,622
Taxes - delinquent	14,670		14,670
Intergovernmental-State	21,146		21,146
Intergovernmental-Indirect Federal	462,269	5,023	467,292
Total Current Assets	625,707	203,769	829,476
<u>Noncurrent Assets</u>			
Bond discount and expense	406,864		406,864
Deferred amount on refunding	534,093		534,093
Capital assets, net of accumulated depreciation	43,533,524	1,035,931	44,569,455
Total Noncurrent Assets	44,474,481	1,035,931	45,510,412
Total Assets	45,100,188	1,239,700	46,339,888
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 2,969	\$ 92	\$ 3,061
Cash overdraft	230,512		230,512
Accrued liabilities	39,260		39,260
Deferred revenue	98,011		98,011
Current portion of bond obligations	1,450,000		1,450,000
Current portion of capital lease obligations	286,764		286,764
Current portion of accrued sick leave	65,447		65,447
Interest payable	298,710		298,710
Total Current Liabilities	2,471,673	92	2,471,765
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	24,805,000		24,805,000
Deferred gain on QZAB	134,375		134,375
Noncurrent portion of capital lease obligations	1,173,152		1,173,152
Noncurrent portion of accrued sick leave	959,875		959,875
Total Noncurrent Liabilities	27,072,402	-	27,072,402
Total Liabilities	29,544,075	92	29,544,167
<u>Net Assets</u>			
Invested in capital assets, net of related debt	16,625,190	1,035,931	17,661,121
Restricted for:			
Grants	61,206		61,206
Capital projects	62,298		62,298
Unrestricted	(1,192,581)	203,677	(988,904)
Total Net Assets	\$ 15,556,113	\$ 1,239,608	\$ 16,795,721

See accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental Activities:							
Instruction	\$ 16,462,233	\$ 57,728	\$ 4,144,667	\$ -	\$(12,259,838)	\$ -	\$(12,259,838)
Support services:							
Student	1,921,515		21,868		(1,899,647)		(1,899,647)
Instruction staff	1,267,323		361,546		(905,777)		(905,777)
District administrative	666,201				(666,201)		(666,201)
School administrative	1,470,939				(1,470,939)		(1,470,939)
Business	846,807		47,729		(799,078)		(799,078)
Plant operation and maintenance	2,113,806				(2,113,806)		(2,113,806)
Student transportation	1,914,300		47,384		(1,866,916)		(1,866,916)
Community service activities	309,528		299,359		(10,169)		(10,169)
Interest on long-term debt	1,146,648			226,194	(920,454)		(920,454)
Total Governmental Activities	28,119,300	57,728	4,922,553	226,194	(22,912,825)	-	(22,912,825)
Business-Type Activities:							
Food service	2,119,122	509,486	1,550,796	-	-	(58,840)	(58,840)
Total Business-Type Activities	2,119,122	509,486	1,550,796	-	-	(58,840)	(58,840)
Total Primary Government	\$ 30,238,422	\$ 567,214	\$ 6,473,349	\$ 226,194	(22,912,825)	(58,840)	(22,971,665)
			General Revenues:				
			Taxes:				
			Property taxes	4,672,547			4,672,547
			Motor vehicle taxes	577,239			577,239
			Utility taxes	1,135,292			1,135,292
			Other	8,630			8,630
			Investment earnings	25,257	3,720		28,977
			Gain on disposal of capital assets	880			880
			State and formula grants	16,328,019			16,328,019
			Miscellaneous	182,669			182,669
			Total general revenues	22,930,533	3,720		22,934,253
			Transfers	38,541	(38,541)		-
			Change in net assets	56,249	(93,661)		(37,412)
			Net assets - beginning	15,499,864	1,333,269		16,833,133
			Net assets - ending	\$ 15,556,113	\$ 1,239,608		\$ 16,795,721

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

RUSSELL COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2012

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 27,439	\$ -	\$ 62,298	\$ 89,737
Receivables:				
Taxes - current	127,622			127,622
Taxes - delinquent	14,670			14,670
Other receivables				-
Intergovernmental - State		21,146		21,146
Intergovernmental - Indirect Federal		462,269		462,269
Total Assets	\$ 169,731	\$ 483,415	\$ 62,298	\$ 715,444
Liabilities and Fund Balances:				
Liabilities				
Cash overdraft	\$ -	\$ 320,249	\$ -	\$ 320,249
Accounts payable	2,969			2,969
Accrued liabilities	39,260			39,260
Deferred revenue		98,011		98,011
Total Liabilities	42,229	418,260	-	460,489
Fund Balances				
Restricted		61,206	62,298	123,504
Assigned	35,951	3,949		39,900
Unassigned	91,551			91,551
Total Fund Balances	127,502	65,155	62,298	254,955
Total Liabilities and Fund Balances	\$ 169,731	\$ 483,415	\$ 62,298	\$ 715,444

See accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS

June 30, 2012

Total fund balance per fund financial statements	\$ 254,955
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	43,533,524
Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets:	
Bonds payable	(26,255,000)
Deferred gain on QZAB	(134,375)
Bond discount and expense	406,864
Deferred amount on refunding	534,093
Capital lease obligations	(1,459,916)
Interest payable	(298,710)
Accrued sick leave	<u>(1,025,322)</u>
Net assets for governmental activities	<u>\$ 15,556,113</u>

See accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year Ended June 30, 2012

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes:				
Property	\$ 3,082,772	\$ -	\$ 1,589,775	\$ 4,672,547
Motor vehicle	577,239			577,239
Utilities	1,135,292			1,135,292
Other taxes	8,630			8,630
Earnings on investments	23,603	1,554		25,157
Other local revenues	240,400	40,590		280,990
Intergovernmental - State	16,328,019	865,214	1,307,700	18,500,933
Intergovernmental - Indirect Federal	81,268	2,607,803		2,689,071
Intergovernmental - Direct Federal	201,050	45,221		246,271
Total Revenues	21,678,273	3,560,382	2,897,475	28,136,130
Expenditures:				
Instruction	12,474,708	2,803,803		15,278,511
Support services:				
Student	1,899,998	21,868		1,921,866
Instruction staff	906,126	361,546		1,267,672
District administrative	721,974			721,974
School administrative	1,470,302			1,470,302
Business	799,079	46,792		845,871
Plant operation and maintenance	1,851,057		262,382	2,113,439
Student transportation	1,963,711	47,384		2,011,095
Community service activities	9,623	299,359		308,982
Other	362,197		20,000	382,197
Debt service:				
Principal			1,435,000	1,435,000
Interest			1,000,594	1,000,594
Total Expenditures	22,458,775	3,580,752	2,717,976	28,757,503
Excess (Deficit) of Revenues over Expenditures	(780,502)	(20,370)	179,499	(621,373)
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	3,420			3,420
Transfers in	230,260	60,497	2,211,674	2,502,431
Transfers out	(60,497)		(2,403,393)	(2,463,890)
Total Other Financing Sources	173,183	60,497	(191,719)	41,961
Change in Fund Balances	(607,319)	40,127	(12,220)	(579,412)
Fund Balance, July 1, 2011	734,821	25,028	74,518	834,367
Fund Balance, June 30, 2012	\$ 127,502	\$ 65,155	\$ 62,298	\$ 254,955

See accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT

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

Year Ended June 30, 2012

Net change in total fund balances per fund financial statements	\$ (579,412)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.	(1,088,177)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	1,764,200
In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.	(2,540)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(37,822)</u>
Change in net assets of governmental activities	<u>\$ 56,249</u>

See accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS

June 30, 2012

	<u>Food Service Fund</u>
Assets	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 166,955
Inventory	31,791
Receivables:	
Intergovernmental-indirect federal	<u>5,023</u>
Total Current Assets	<u>203,769</u>
<u>Noncurrent Assets</u>	
Capital assets, net of accumulated depreciation	<u>1,035,931</u>
Total Noncurrent Assets	<u>1,035,931</u>
Total Assets	<u><u>\$ 1,239,700</u></u>
Liabilities	
<u>Current Liabilities</u>	
Accounts payable	<u>\$ 92</u>
Total Current Liabilities	<u>92</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	1,035,931
Unrestricted	<u>203,677</u>
Total Net Assets	<u><u>\$ 1,239,608</u></u>

See accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

Year Ended June 30, 2012

	Food Service Fund
Operating Revenues:	
Lunchroom sales	\$ 505,652
Other	3,834
Total Operating Revenues	<u>509,486</u>
Operating Expenses:	
Salaries and wages	1,061,015
Materials and supplies	952,062
Depreciation	87,447
Other operating expenses	18,598
Total Operating Expenses	<u>2,119,122</u>
Operating loss	(1,609,636)
Non-Operating Revenues (Expenses):	
Federal grants	1,228,382
Donated commodities	77,027
State grants	17,579
State on-behalf payments	227,808
Investment earnings	3,720
Total Non-Operating Revenues (Expenses) Before Transfers	<u>1,554,516</u>
Transfers out	<u>(38,541)</u>
Change in net assets	(93,661)
Net Assets, July 1, 2011	<u>1,333,269</u>
Net Assets, June 30, 2012	<u>\$ 1,239,608</u>

See accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2012

	<u>Food Service Fund</u>
Cash Flows from Operating Activities	
Cash received from:	
Lunchroom sales	\$ 505,652
Other	4,706
Cash paid to/for:	
Employees	833,207
Supplies	882,684
Other activities	<u>18,598</u>
Net Cash Used by Operating Activities	(1,224,131)
Cash flows from Non-Capital Financing Activities	
Federal grants	1,230,439
State grants	17,579
Transfers to other funds	<u>(38,541)</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	1,209,477
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	(4,118)
Cash Flows from Investing Activities	
Receipt of interest income	<u>3,720</u>
Net increase (decrease) in cash and cash equivalents	(15,052)
Balances, beginning of year	<u>182,007</u>
Balances, end of year	<u><u>\$ 166,955</u></u>
Reconciliation of operating loss to net cash provided (used) by operating activities	
Operating loss	\$ (1,609,636)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	87,447
State on-behalf payments	227,808
Donated commodities	77,027
Change in assets and liabilities:	
Inventory	(4,519)
Accounts payable	<u>(3,130)</u>
Net cash used by operating activities	<u><u>\$ (1,225,003)</u></u>
Schedule of non-cash transactions:	
Donated commodities received from federal government	<u><u>\$ 77,027</u></u>
State on-behalf payments	<u><u>\$ 227,808</u></u>

See accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENTS OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2012

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 207,952
Receivables	<u>247</u>
Total Assets	<u><u>\$ 208,199</u></u>
Liabilities	
Accounts payable	\$ 2,000
Due to student groups	<u>206,199</u>
Total Liabilities	<u><u>\$ 208,199</u></u>

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Russell County Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Russell County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

During the year ended June 30, 2011, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The standard established the fund balance categories of nonspendable, restricted, committed, assigned and unassigned. Information concerning the District's fund balances can be found in Note C.

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

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

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

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

Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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

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

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (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 cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA and on-behalf payments for retirement and insurance made by the State of Kentucky. The Food Service Fund is a major fund.
- B. The FRC Childcare Fund was used to account for the District's childcare operation. This fund was closed on June 30, 2011.

III. Fiduciary Fund Type (Agency Fund)

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

Basis of Accounting

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

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

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting - continued

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

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

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2012, to finance operations were \$.486 per \$100 valuation for real property, \$.486 per \$100 valuation for business personal property and \$.522 per \$100 valuation for motor vehicles.

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

Capital Assets

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

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets – Continued

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

Interfund Balances

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

Budgetary Process

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

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

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

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

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Encumbrances

Encumbrances are not liabilities and, therefore, are not reported 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.

Cash and Cash Equivalents

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

Inventories

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

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

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Receivables

The District recognizes revenues as receivable when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions.

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.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrued Liabilities and Long-Term Obligations

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The policy is to apply restricted resources first when an expense is incurred for with both restricted and unrestricted net assets are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools and for childcare services provided.

Contributions of Capital

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

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.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B – ESTIMATES

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

NOTE C – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2012, there were no nonspendable fund balance related to prepaid items.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2012, the District had \$61,206 restricted for grants in the special revenue fund and \$56,792 restricted for capital projects in the non-major funds.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had did not have any commitments at June 30, 2012.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2012, was \$35,951 recorded in the general fund and \$3,949 in the special revenue fund. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

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

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

NOTE D – CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2012, \$1,661,791 of the District's bank balance of \$1,911,791 was exposed to custodial credit risk. The bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE E - CAPITAL ASSETS

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

Governmental Activities	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Non-Depreciable Assets:				
Land	\$ 1,038,022	\$ -	\$ -	\$ 1,038,022
Depreciable Assets:				
Land improvements	1,453,896			1,453,896
Buildings and improvements	52,952,215			52,952,215
Technology equipment	1,578,326	76,905	(80,606)	1,574,625
Vehicles	4,437,900	276,727		4,714,627
General equipment	792,108	37,927	(8,019)	822,016
Totals at historical cost	62,252,467	391,559	(88,625)	62,555,401
Accumulated depreciation:				
Land improvements	1,223,726	38,267		1,261,993
Buildings and improvements	11,083,268	1,050,395		12,133,663
Technology equipment	1,303,020	137,388	(78,818)	1,361,590
Vehicles	3,424,564	225,112		3,649,676
General equipment	593,648	28,574	(7,267)	614,955
Total accumulated depreciation	17,628,226	1,479,736	(86,085)	19,021,877
Government Activities Capital Assets - Net	<u>\$ 44,624,241</u>	<u>\$ (1,088,177)</u>	<u>\$ (2,540)</u>	<u>\$ 43,533,524</u>
Depreciation was charged to governmental functions as follows:				
Instruction	\$ 1,251,596			
Student support	294			
Instructional staff	343			
District administration	8,035			
School administration	453			
Plant	21,313			
Transportation	197,156			
Community services	546			
	<u>\$ 1,479,736</u>			
Business-Type Activities	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Buildings and improvements	\$ 1,037,161	\$ -	\$ -	\$ 1,037,161
Technology equipment	26,624	1,338		27,962
Food service equipment	870,928	2,780		873,708
Totals at historical cost	1,934,713	4,118	-	1,938,831
Accumulated depreciation:				
Buildings and improvements	336,658	20,329		356,987
Technology equipment	2,219	5,390		7,609
Food service equipment	476,576	61,728		538,304
Total accumulated depreciation	815,453	87,447	-	902,900
Business-Type Activities Capital Assets - Net	<u>\$ 1,119,260</u>	<u>\$ (83,329)</u>	<u>\$ -</u>	<u>\$ 1,035,931</u>

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE F – LONG-TERM OBLIGATIONS

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2002	\$ 4,900,000	1.40% - 4.10%
2005	6,720,000	3.50% - 4.20%
2006R	4,780,000	3.35% - 4.00%
2006B	3,590,000	3.75% - 4.00%
2007	8,275,000	4.00% - 4.125%
2011	5,940,000	1.00% - 3.5%

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

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

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2012, for debt service (principal and interest) are as follows:

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE F – LONG-TERM OBLIGATIONS - CONTINUED

Year	Principal	Interest	Participation	District's Portion
2013	\$ 1,450,000	\$ 966,380	\$ 226,257	\$ 2,190,123
2014	1,505,000	913,166	226,609	2,191,557
2015	1,535,000	857,540	202,231	2,190,309
2016	1,530,000	803,826	142,012	2,191,814
2017	1,590,000	748,442	143,502	2,194,940
2018-2022	8,750,000	2,787,916	564,291	10,973,625
2023-2027	8,925,000	1,029,353	225,522	9,728,831
2028	970,000	20,006	-	990,006
	<u>\$ 26,255,000</u>	<u>\$ 8,126,629</u>	<u>\$ 1,730,424</u>	<u>\$ 32,651,205</u>

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. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

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

Long-term liability for the year ended June 30, 2012, was as follows:

	Beginning Balance July 1, 2011	Additions	Reductions	Ending Balance June 30, 2012	Amounts Due Within One Year
Governmental Activities:					
Revenue bonds payable	\$ 27,690,000	\$ -	\$ 1,435,000	\$ 26,255,000	\$ 1,450,000
Accrued sick leave	<u>1,080,559</u>	<u>72,896</u>	<u>128,133</u>	<u>1,025,322</u>	<u>65,447</u>
Governmental Activities:					
Long-term liabilities	<u>\$ 28,770,559</u>	<u>\$ 72,896</u>	<u>\$ 1,563,133</u>	<u>\$ 27,280,322</u>	<u>\$ 1,515,447</u>

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

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE G – CAPITAL LEASE PAYABLE

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

<u>Classes of Property</u>	
Buses and garbage truck, School Improvements and Equipment	
Gross amount of assets	\$ 5,448,501
Accumulated amortization	3,906,862

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2012:

<u>Year Ending</u> <u>June 30,</u>	<u>Capital Lease</u> <u>Payable</u>
2013	\$ 330,365
2014	295,770
2015	267,341
2016	224,198
2017	196,404
2018-2020	298,647
Total minimum lease payments	1,612,725
Less: Amount representing interest	(152,809)
	<u>\$ 1,459,916</u>

NOTE H – RETIREMENT PLANS

All the District's eligible employees participate in the Kentucky Teacher's Retirement System (KTRS), a statewide multiple-employer public employee retirement system covering all employees of local school districts within the State of Kentucky. KTRS is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the District but are the liability of the State of Kentucky. KTRS is funded through state and employee contributions and the District has no legal obligation for paying benefits. As discussed below, the District may be required in certain situations to make limited contributions on behalf of certain employees.

The State of Kentucky contributes 13.105% of the employee's gross earnings for employees with un-refunded accounts before July 1, 2008 and 14.105% of employee's gross earnings for employees on or after July 1, 2008, except for those District employees being paid from and participating in federally funded programs. During the years ended June 30, 2012, 2011 and 2010, contributions of \$1,505,159, \$1,516,378 and \$1,585,327 were made by the State of Kentucky and \$180,132, \$193,526 and \$240,127 in contributions were passed through the District's federally funded programs. Contributions by the employees are 10.355% of gross earnings for employees with un-refunded accounts before July 1, 2008 and 10.855% of employee's gross earnings for employees on or after July 1, 2008 and are withheld by the District. The contribution rate is actuarially determined. Such withholdings during the years ended June 30, 2012, 2011 and 2010 totaled \$1,325,394, \$1,318,433 and \$1,373,366 and were paid by the District to the State of Kentucky as required. The District has no other liability under the plan. The District's total payroll for all employees during the years ended June 30, 2012, 2011 and 2010 was \$16,675,518, \$17,108,803 and \$18,260,662 and \$12,779,163, \$13,033,374 and \$13,910,344 of such amounts related to employees covered by the retirement plan. All annually required contributions were made to the retirement system.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE H – RETIREMENT PLANS – CONTINUED

Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Financial Report by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% for those employee participating in CERS before September 1, 2008 and 6% for those employee participating in CERS on or after September 1, 2008 and a District contribution for the years ended June 30, 2012, 2011 and 2010 of 18.96%, 16.93% and 16.16% of the employee's total compensation subject to contribution. The contribution rate is actuarially determined. The District's contribution requirement for CERS for the years ended June 30, 2012, 2011 and 2010 was \$924,407, \$857,165 and \$850,637 which consisted of \$729,213, \$661,735 and \$649,331 from the District and \$195,194, \$195,430 and \$201,306 from the employees. The total covered payroll for CERS during the years ended June 30, 2012, 2011 and 2010 was \$3,846,058, \$3,908,571 and \$4,018,013. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents. All payments were made to the retirement system in the amount of the annually required contributions.

The County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601

Deferred Compensation

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

NOTE I – CONTINGENCIES

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

NOTE J – LITIGATION

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

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE K – INSURANCE AND RELATED ACTIVITIES

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

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District purchases commercial insurance.

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

NOTE M – DEFICIT OPERATING BALANCES

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

General Fund	\$ 607,319
Debt Service Fund	17,726
Food Service Fund	93,661

NOTE N – COBRA

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

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONCLUDED

June 30, 2012

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

Fund Financial Statements

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Projects	\$ 60,497
Nonmajor Governmental	Nonmajor Governmental	Debt Service	2,211,674
Nonmajor Governmental	General	Operations	191,719
Food Service	General	Indirect Costs	38,541
			<u>\$ 2,502,431</u>

Government-wide Financial Statements

Governmental Activities	Food Service	Indirect Costs	\$ 38,541
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NOTE P – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2012.

NOTE Q – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2012, was \$4,919,988. This was allocated as follows:

General Fund	\$4,692,180
Food Service Fund	227,808

REQUIRED SUPPLEMENTARY INFORMATION

RUSSELL COUNTY SCHOOL DISTRICT

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

GENERAL FUND

Year Ended June 30, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
From local sources:			
Taxes:			
Property	\$ 2,820,000	\$ 2,820,000	\$ 3,082,772
Motor vehicle	560,000	560,000	577,239
Utilities	1,264,000	1,264,000	1,135,292
Other taxes	10,000	10,000	8,630
Earnings on investments	40,000	40,000	23,603
Other local revenues	335,000	335,000	240,400
Intergovernmental - State	11,486,000	11,486,000	16,328,019
Intergovernmental - Indirect Federal	60,000	60,000	81,268
Intergovernmental - Direct Federal	175,000	175,000	201,050
Total Revenues	<u>16,750,000</u>	<u>16,750,000</u>	<u>21,678,273</u>
Expenditures:			
Instruction	9,105,097	9,127,909	12,474,950
Support services:			
Student	1,198,580	1,221,883	1,899,998
Instruction staff	628,537	661,143	906,126
District administrative	1,207,517	1,166,371	721,790
School administrative	1,106,632	1,129,980	1,470,486
Business	499,651	559,299	799,079
Plant operation and maintenance	1,820,599	1,925,320	1,850,815
Student transportation	1,476,426	1,441,634	1,963,711
Other	256,961	276,742	371,820
Total Expenditures	<u>17,300,000</u>	<u>17,510,281</u>	<u>22,458,775</u>
Excess (Deficit) of Revenues over Expenditures	(550,000)	(760,281)	(780,502)
Other Financing Sources (Uses):			
Proceeds from sale of capital assets			3,420
Transfers in		19,781	230,260
Transfers out		(9,500)	(60,497)
Total Other Financing Sources (Uses)	<u>-</u>	<u>10,281</u>	<u>173,183</u>
Change in Fund Balance	(550,000)	(750,000)	(607,319)
Fund balance, July 1, 2011	<u>550,000</u>	<u>750,000</u>	<u>734,821</u>
Fund balance, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 127,502</u>

Both inflows and outflows are equally different in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds by the amount of on-behalf payments of \$4,692,180.

RUSSELL COUNTY SCHOOL DISTRICT

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

SPECIAL REVENUE FUND

Year Ended June 30, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
Earnings on investments	\$ -	\$ -	\$ 1,554
Other local revenues	17,000	20,465	40,590
Intergovernmental - State	326,246	355,878	865,214
Intergovernmental - Indirect Federal	2,112,428	2,526,082	2,607,803
Intergovernmental - Direct Federal			45,221
Total Revenues	<u>2,455,674</u>	<u>2,902,425</u>	<u>3,560,382</u>
Expenditures:			
Instruction	1,918,929	2,316,154	2,802,866
Support services:			
Student	770	1,782	21,868
Instruction staff	201,249	221,031	361,546
Business	45,420	84,142	47,729
Student transportation		11,000	47,384
Community service activities	289,306	277,816	299,359
Total Expenditures	<u>2,455,674</u>	<u>2,911,925</u>	<u>3,580,752</u>
Excess (Deficit) of Revenues over Expenditures	-	(9,500)	(20,370)
Other Financing Sources (Uses):			
Transfers in		77,990	60,497
Transfers out		(68,490)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>9,500</u>	<u>60,497</u>
Change in Fund Balance	-	-	40,127
Fund balance, July 1, 2011			<u>25,028</u>
Fund balance, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,155</u>

SUPPLEMENTARY INFORMATION

RUSSELL COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2012

	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets:					
Cash and cash equivalents	\$ -	\$ 5,506	\$ 56,792	\$ -	\$ 62,298
Total Assets	<u>\$ -</u>	<u>\$ 5,506</u>	<u>\$ 56,792</u>	<u>\$ -</u>	<u>\$ 62,298</u>
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances					
Restricted		5,506	56,792		62,298
Total Fund Balances	<u>-</u>	<u>5,506</u>	<u>56,792</u>	<u>-</u>	<u>62,298</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 5,506</u>	<u>\$ 56,792</u>	<u>\$ -</u>	<u>\$ 62,298</u>

RUSSELL COUNTY SCHOOL DISTRICT

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

Year Ended June 30, 2012

	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ -	\$ 1,589,775	\$ -	\$ -	\$ 1,589,775
Intergovernmental - State	262,382	819,124		226,194	1,307,700
Total Revenues	262,382	2,408,899	-	226,194	2,897,475
Expenditures					
Plant operation and maintenance	262,382				262,382
Other				20,000	20,000
Debt service:					
Principal				1,435,000	1,435,000
Interest				1,000,594	1,000,594
Total Expenditures	262,382	-	-	2,455,594	2,717,976
Excess (Deficit) of Revenues over Expenditures	-	2,408,899	-	(2,229,400)	179,499
Other Financing Sources (Uses)					
Transfers in				2,211,674	2,211,674
Transfers out		(2,403,393)			(2,403,393)
Total Other Financing Sources (Uses)	-	(2,403,393)	-	2,211,674	(191,719)
Change in Fund Balances	-	5,506	-	(17,726)	(12,220)
Fund balance, July 1, 2011	-	-	56,792	17,726	74,518
Fund balance, June 30, 2012	\$ -	\$ 5,506	\$ 56,792	\$ -	\$ 62,298

RUSSELL COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2012

	<u>Russell Springs Elementary</u>	<u>Union Chapel Elementary</u>	<u>Jamestown Elementary</u>	<u>Salem Elementary</u>	<u>Russell County Middle School</u>	<u>Russell County High School</u>	<u>Total Agency Fund</u>
Assets							
Cash and cash equivalents	\$ 50,841	\$ 8,927	\$ 24,258	\$ 18,577	\$ 25,941	\$ 79,408	\$ 207,952
Receivables	-	-	247	-	-	-	247
Total Assets	<u>\$ 50,841</u>	<u>\$ 8,927</u>	<u>\$ 24,505</u>	<u>\$ 18,577</u>	<u>\$ 25,941</u>	<u>\$ 79,408</u>	<u>\$ 208,199</u>
Liabilities							
Accounts payable	\$ -	\$ 2,000	\$ -	\$ -	\$ -		\$ 2,000
Due to student groups	50,841	6,927	24,505	18,577	25,941	79,408	206,199
Total Liabilities	<u>\$ 50,841</u>	<u>\$ 8,927</u>	<u>\$ 24,505</u>	<u>\$ 18,577</u>	<u>\$ 25,941</u>	<u>\$ 79,408</u>	<u>\$ 208,199</u>

RUSSELL COUNTY SCHOOL DISTRICT

SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS AND LIABILITIES

AGENCY FUNDS

June 30, 2012

SCHOOL	CASH BALANCES July 1, 2011	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2012	RECEIV- ABLES June 30, 2012	ACCOUNT S PAYABLE June 30, 2012	DUE TO STUDENT GROUPS June 30, 2012
Russell County High	\$ 69,809	\$ 294,847	\$ 285,248	\$ 79,408	\$ -	\$ -	\$ 79,408
Russell County Middle	48,895	45,510	68,464	25,941	-	-	25,941
Jamestown Elementary	18,190	60,126	54,058	24,258	247	-	24,505
Russell Springs Elementary	39,914	39,120	28,193	50,841	-	-	50,841
Salem Elementary	21,874	48,702	51,999	18,577	-	-	18,577
Union Chapel Elementary	7,280	26,418	24,771	8,927	-	2,000	6,927
	<u>\$ 205,962</u>	<u>\$ 514,723</u>	<u>\$ 512,733</u>	<u>\$ 207,952</u>	<u>\$ 247</u>	<u>\$ 2,000</u>	<u>\$ 206,199</u>

RUSSELL COUNTY SCHOOL DISTRICT

SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES

RUSSELL COUNTY HIGH SCHOOL

FOR YEAR ENDED JUNE 30, 2012

NAME OF ACTIVITY	CASH BALANCES JULY 1, 2011	RECEIPTS	DISBURSE- MENTS	CASH BALANCES JUNE 30, 2012	RECEIVABLES JUNE 30, 2012	ACCOUNTS PAYABLE JUNE 30, 2012	DUE TO STUDENT GROUPS JUNE 30, 2012
Academic Team	\$ 563	\$ -	\$ -	563	\$ -	\$ -	\$ 563
Agriculture (Shop)	3,375	555	1,502	2,428	-	-	2,428
Art Club	381	705	620	466	-	-	466
Athletic	19,693	89,022	89,708	19,007	-	-	19,007
Boss	256	638	557	337	-	-	337
Concession	8,973	6,446	9,500	5,919	-	-	5,919
Drama	1,041	100	240	901	-	-	901
DECA	2,371	7,495	6,804	3,062	-	-	3,062
FCA	405	1,150	1,271	284	-	-	284
FCCLA	1	430	218	213	-	-	213
FFA	2,735	24,870	22,131	5,474	-	-	5,474
Flower & Gift Fund	159	10,535	8,960	1,734	-	-	1,734
History	157	-	-	157	-	-	157
Horticulture	2,662	-	600	2,062	-	-	2,062
Library	1,315	1,313	2,048	580	-	-	580
Miscellaneous	5,113	57,583	58,690	4,006	-	-	4,006
Newspaper	428	320	665	83	-	-	83
ROTC	882	9,334	6,769	3,447	-	-	3,447
Pride Club	17	-	-	17	-	-	17
Senior Class	10,823	47,325	55,363	2,785	-	-	2,785
Spanish	622	2,335	2,110	847	-	-	847
State Books	397	-	-	397	-	-	397
Student Council	1,920	-	-	1,920	-	-	1,920
Tech Ed	43	78	94	27	-	-	27
WLKR	3	280	-	283	-	-	283
Y-Club	734	17,284	17,637	381	-	-	381
Freshman Class	97	2,909	2,344	662	-	-	662
Spirit Club	128	-	1	127	-	-	127
Yearbook	4,515	24,060	7,336	21,239	-	-	21,239
Sub Total	69,809	304,767	295,168	79,408	-	-	79,408
Interfund Transfers		9,920	9,920				
TOTAL	\$ 69,809	\$ 294,847	\$ 285,248	\$ 79,408	\$ -	\$ -	\$ 79,408

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

RUSSELL COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster - Cash Assistance Passed Through State Department of Education: National School Lunch	10.555	7750002-11 7750002-12	\$ 188,019 678,519
School Breakfast Program	10.553	7760005-11 7760005-12	72,420 284,400
Summer Feeding Program for Children	10.559	7740023-11 7740023-12	1 5,023
Non-Cash Assistance (Commodities) National School Lunch Program	10.555	057502-02	77,027
TOTAL CHILD NUTRITION CLUSTER			<u>1,305,409</u>
TOTAL U.S. DEPT. OF AGRICULTURE			<u>1,305,409</u>
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Congressionally Identified Awards and Projects	11.469	2722	<u>1,502</u>
TOTAL U.S. DEPARTMENT OF COMMERCE			<u>1,502</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
National Guard Civilian Youth Opportunities	12.404	5041 5042	(7,125) 55,689
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>48,564</u>
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed Through State Department of Education: Job Training Partnership Act	17.250	3822	25,400
Passed Through Lake Cumberland Area Development District WIA Youth Activities	17.259	5889A 5881A 5882A	1,040 (9,261) 73,068
Passed Through Lake Cumberland Area Development District WIA Dislocated Workers	17.260	5910A	6,217
TOTAL U.S. DEPARTMENT OF LABOR			<u>96,464</u>

The accompanying notes are an integral part of this schedule.

RUSSELL COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

YEAR ENDED JUNE 30, 2012

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Title I, Part A Cluster -			
Passed Through State Department of Education			
Title I Grants to Local Educational Agencies			
	84.010	3100	(23,705)
		3100D	(14,868)
		3100M	5,709
		3101	444,834
		3101D	55,334
		3101M	12,137
		3102	443,635
		3102D	84,562
		3102M	3,609
		3202	28,519
			<u>1,039,766</u>
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	3919	15,979
		3919D	33,222
		3919M	1,089
			<u>50,290</u>
TOTAL TITLE I, PART A CLUSTER			<u>1,090,056</u>
Special Education Cluster (IDEA) -			
Passed Through State Department of Education			
Special Education - Grants to States			
	84.027	3379	125
		3371	219,588
		3372	381,724
			<u>601,437</u>
Special Education - Preschool Grants	84.173	3431	15,971
ARRA - Special Education - Grants to States (Idea, Part B), Recovery Act	84.391	4249	(62,822)
ARRA - Special Education - Preschool Grants (Idea Preschool), Recovery Act	84.392	4239	18,302
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>572,888</u>
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Impact Aid	84.041	GF	201,050

The accompanying notes are an integral part of this schedule.

RUSSELL COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

YEAR ENDED JUNE 30, 2012

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Passed Through Kentucky Council on Postsecondary Education Adult Education - State Grant Program	84.002	3732 3732S	57,759 2,012 <hr/> 59,771
Passed Through State Department of Education Migrant Education - State Grant Program	84.011	3111 3112	(5,875) 90,094 <hr/> 84,219
Vocational Education - Basic Grants to States	84.048	3480A 3481 3482	866 3,590 27,963 <hr/> 32,419
Twenty-First Century Community Learning Centers	84.287	5500 5500Q 5500Z 5501 5501C 5502S	24,425 2,000 25,470 58,195 71,040 6,134 <hr/> 187,264
Rural Education	84.358	3500 3501 3502	(15,899) 66,505 21,656 <hr/> 72,262
Improving Teacher Quality - State Grants	84.367	4012	91,966
ARRA - Education Technology State Grants, Recovery Act	84.386	4850 4860	21,602 67,824 <hr/> 89,426
ARRA - Education of Homeless Children and Youth, Recovery Act	84.387	3219	<hr/> 222
TOTAL U.S. DEPARTMENT OF EDUCATION			<hr/> 2,481,543
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Big Sandy Area Development District Temporary Assistance for Needy Families	93.558	0042	<hr/> 133,136
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<hr/> 133,136
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,066,618</u>

The accompanying notes are an integral part of this schedule.

RUSSELL COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments 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 value of the commodities disbursed.

NOTE D – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

RUSSELL COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? ___X___yes ___no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____yes ___X___none reported

Noncompliance material to financial statements noted?

_____yes ___X___no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____yes ___X___no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ___X___yes _____none reported

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

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

___X___yes _____no

Identification of major programs:

CFDA Number	Federal Program or Cluster
Department of Agriculture	
Child Nutrition Cluster	
10.553	School Breakfast Program
10.555	National School Lunch
10.559	Summer Feeding Program for Children
Department of Education	
Title I, Part A Cluster	
84.010	Title I Grants to Local Educational Agencies
84.389	ARRA - Title I Grants to Local Educational Agencies, Recovery Act
Special Education Cluster (IDEA)	
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants
84.391	ARRA - Special Education - Grants to States (Idea, Part B), Recovery Act
84.392	ARRA - Special Education - Preschool Grants (Idea Preschool), Recovery Act

Section I-Summary of Auditor's Results – Continued

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

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

MATERIAL WEAKNESSES**REFERENCE NUMBER 2012-01 ADJUSTMENTS**

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

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

Cause: The District has a limited number of personnel with limited financial reporting experience.

Effect: The design of the internal controls over recording transactions limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in recording transactions and develop internal control policies to ensure proper recording of these items.

Management Response: Management will implement procedures by October 31, 2012, to identify material adjustments.

Section III – Federal Award Findings and Questioned Costs

REFERENCE NUMBER 2012-02

DEPARTMENT OF EDUCATION – Title I Cluster (CFDA's 84.010 and 84.389) and Special Education Cluster (CFDA's 84.027, 84.173, 84.391 and 84.391); Year ended June 30, 2012

Criteria: – Budgets should be monitored to ensure proper oversight of grant programs.

Condition: – Budgets were not adequately monitored to ensure that program revenues and expenditures were being spent as planned.

Cause: - Program administrators did not spend sufficient time monitoring budgets.

Effect: – Adjustments were required to reclassify grant expenditures.

Questioned Costs: – None

Recommendation: – Russell County School District should ensure that program administrators adequately monitor budgets.

Management Response: – Management will implement procedures by October 31, 2012, to appropriately monitor budgets.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

RUSSELL COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2012

FINDING 2011-04: Special Education – Grants to States (Idea, Part B),– CFDA No. 84.027 – Grant period – Year ending June 30, 2011; Special Education – Preschool Grants (Idea Preschool),– CFDA No. 84.173 – Grant period – Year ending June 30, 2011; ARRA – Special Education – Grants to States (Idea, Part B), Recovery Act – CFDA No. 84.391 – Grant period – Year ending June 30, 2011; ARRA – Special Education – Preschool Grants (Idea Preschool), Recovery Act – CFDA No. 84.392 – Grant period – Year ending June 30, 2011; ARRA – State Fiscal Stabilization Fund – Education State Grants, Recovery Act – CFDA No. 84.394 – Grant period – Year ending June 30, 2011.

Condition: – The District did complete required personnel activity reports for all employees.

Recommendation: –The District should ensure that program administrators file reports timely.

Current Status: The recommendation was adopted in November 2011. No similar findings were noted in the 2012 audit.

**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**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Russell County School District as of and for the year ended June 30, 2012, which collectively comprise the Russell County School District's basic financial statements and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, III and IV of the *Independent Auditor's Contract*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-01 to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Russell County School District in a separate letter dated October 19, 2012.

Russell County School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Russell County School District's response and, accordingly, we express no opinion on it.

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



Certified Public Accountants
October 19, 2012

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

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INDEPENDENT AUDITOR'S REPORT

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

Compliance

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

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 and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II III and IV of the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Russell County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Russell County School District's compliance with those requirements.

In our opinion, Russell County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

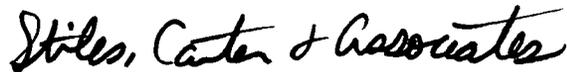
Management of Russell County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Russell County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

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

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2012-02. *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.

Russell County School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Russell County School District's response and, accordingly, we express no opinion on it.

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



Certified Public Accountants
October 19, 2012

MANAGEMENT LETTER AND COMMENTS

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

In planning and performing our audit of the basic financial statements of Russell County School District for the year ended June 30, 2012, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. Any uncorrected comments from the prior year have been included in the memorandum. A separate report dated October 19, 2012, contains our report on the District's internal control. This letter does not affect our report dated October 19, 2012, on the financial statements of the Russell County School District.

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

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

Certified Public Accountants
October 19, 2012

RUSSELL COUNTY SCHOOL DISTRICT

COMMENTS

June 30, 2012

UNCORRECTED PRIOR YEAR COMMENTS

RUSSELL COUNTY HIGH SCHOOL

CASH ADVANCES

We noted two cash advances, check #6913 dated 12/1/2011 and check number 7144 dated 2/20/2012, that were not supported by Form F-SA-9.

MANAGEMENT RESPONSE

Management will meet with school personnel to discuss this item.

CURRENT YEAR COMMENTS

RUSSELL COUNTY HIGH SCHOOL

FUNDRAISER

We noted the Deca candle sales fundraiser did not complete Form F-SA-2B Fundraiser Worksheet.

MANAGEMENT RESPONSE

Management will meet with school personnel to discuss this item.

BOOSTER CLUBS

We noted that the following booster clubs did not provide the Annual Financial Report: Russell County Gridiron Moms and Dads, Russell County Golf Team, Lady Laker Golf, Russell County Volleyball Boosters, Russell County Cheerleader Boosters, Russell County Swim Team Boosters, Russell County Boys Hardwood Parents, Lady Laker Basketball Boosters, Russell County Baseball Boosters, Russell County Track Team Boosters, Band Boosters, ROTC Boosters, Dance Boosters, Boys/Girls Tennis Boosters, and Softball Boosters.

We noted that the following booster clubs did not provide the Budget: Russell County Gridiron Moms and Dads, Russell County Cheerleaders Boosters, Russell County Swim Team Boosters, Russell County Hardwood Parents, Russell County Baseball Boosters, Russell County Track Team Boosters, Band Boosters, ROTC Boosters, Dance Boosters, Boys/Girls Tennis Boosters, and Softball Boosters.

We noted that the following booster clubs did not provide the listing of officers: Russell County Track Team Boosters, Band Boosters, ROTC Boosters, Dance Boosters, and Boys/Girls Tennis Boosters.

MANAGEMENT RESPONSE

Management will meet with school personnel to discuss this item.

RUSSELL COUNTY SCHOOL DISTRICT

COMMENTS – CONTINUED

June 30, 2012

CURRENT YEAR COMMENTS - CONTINUED

RUSSELL SPRINGS ELEMENTARY

INVENTORY CONTROL

We noted the Backpack program had a total shortage of \$241 for the year. We also noted F-SA-2B, Fundraiser Worksheet, was not on file for the Safety Patrol's Candy Bar Sales.

MANAGEMENT RESPONSE

Management will meet with school personnel to discuss this item.

GIFT CARDS

We noted a gift card was purchased to K-Mart for C. Damron. There was no documentation to indicate receipt of the gift card.

MANAGEMENT RESPONSE

Management will meet with school personnel to discuss this item.