

**Russellville Independent
School District**

Financial Statements

June 30, 2012



Russellville Independent School District

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Independent Auditors' Report

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District
Russellville, 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 Russellville Independent School District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, Appendix III of the *Independent Auditors' Contract—Audit Extension Request* and Appendix IV of the *Independent Auditors' 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 our report dated October 26, 2012 on our consideration of Russellville Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 8 through 20 and 64 through 67 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 District's financial statements as a whole. The combining and individual non-major fund financial statements and other information 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 purpose 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 and individual non-major fund financial statements and other information, 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing 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 as a whole.

Carr, Riggs & Ingram, L.L.C.

**Required Supplementary
Information**

**Management's Discussion
and Analysis**

**RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
RUSSELLVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)
YEAR ENDED JUNE 30, 2012**



As management of the Russellville Independent School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- Based on the GASB 34 model of measuring net assets, the total net assets from Governmental activities increased \$161,069 (i.e. 2.1%) and \$310,542 (i.e. 4.1%) for the fiscal years ended June 30, 2012 and 2011 respectively. Total net assets from Business type activities increased \$12,597 (i.e. 4.1%) and increased \$33,475 (i.e. 12.1%) for the fiscal years ended June 30, 2012 and 2011 respectively. The result was a combined increase in the total net assets of the district of \$173,666 (i.e. 2.1%) and \$344,017 (i.e. 4.4%) respectively.
- Total expenses related to governmental activities, for 2012 and 2011 respectively, were \$11,162,878 and \$10,954,112, of which \$2,631,674 and \$3,000,074 was offset by operating and capital grants and contributions. General revenues, including property taxes, utility taxes and state funding, provide the balance of the expenditures.
- In 2012, the financial statements reflect a total of \$1,581,090 of revenues and aid from the state for payments made by the state "on-behalf" of district employees for retirement contributions, Vocational School Education and health insurance. These payments are not paid directly to the district but are benefits of the district paid by the state "on-behalf" of the district.
- Our board has planned in advance and has been very fiscally responsible. During the current year, the board has committed \$1,695,000 of the General Fund's fund balance. \$265,000 is committed to funding future sick leave payouts and \$1,430,000 is committed to a minimum fund balance. In an effort to remain fiscally conservative, the board wants to maintain approximately two to three months of operating expenditures.

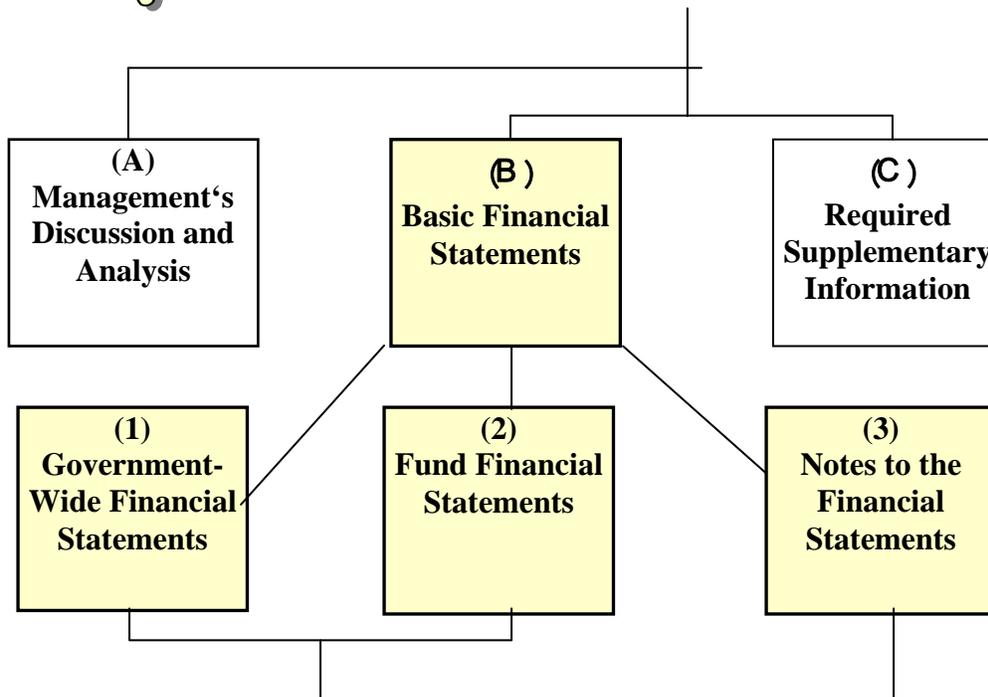


- The main challenge of our district as well as many other districts state wide is declining enrollments. The state's per pupil funding was decreased by \$70.00 per student. The District's funded ADA increased by 7.25 students. Over the past several years, the District's management team has been aggressively taking steps to become more efficient in its operations. School administration is aggressively taking steps to change school atmosphere.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Russellville Independent School District as a financial whole or, in other words, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) Management's Discussion and Analysis (this section) [pages 8-20], (B) The Basic Financial Statements [pages 22-37], and (C) Required and other Supplementary Information [pages 64-67]. The statements provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: 1) Government-Wide Financial Statements [pages 22-25], 2) Fund Financial Statements [pages 26-37], and 3) Notes to the Financial Statements [pages 38-62] This report also contains other supplementary information in addition to the basic financial statements themselves.

Organization of the Annual Financial Report





The Government-Wide Financial Statements have two sections (1) the *Statement of Net Assets* and (2) the *Statement of Activities*. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's major funds with all other non-major funds presented in total in one column.

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 38 through 62 of this report.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

One of the most important questions asked about the District is "How did we do financially during 2012?" The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the District's financial statements, report information on the District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader if the financial position of the District as a whole has improved or diminished. However, the District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky's SEEK funding formula and its adjustments, the District's property tax base and required educational programs.

In the *Statement of Net Assets* and the *Statements of Activities*, the District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District's Food Service, and Community Education programs are reported as business activities. These activities are funded through fees, federal grants, and federal commodities.



Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District's financial position, total assets exceeded liabilities by \$8,315,534 and \$8,141,868 as of June 30, 2012 and 2011, respectively an increase of \$173,666.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment), less any outstanding related debt used to acquire those assets. 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 (\$5,781,994), 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.

Government-wide financial statements can be found on pages 22 through 25 of this report.

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

After looking at the District as a whole, an analysis of the major funds follows. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. 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. Fund accounting 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 District's funds can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are assets that belong to others. The school's activity funds and scholarship trust accounts are reported as fiduciary funds. The School Food Service and Community Education Funds are reported as proprietary funds. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the District are included in the governmental funds. The major governmental funds for the Russellville Independent School District are the General Fund and Special Revenue Fund (grants).

Governmental Funds - Most of the District's activities are reported in the governmental funds. The governmental funds focus on how money flows into and out and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view



of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the *Statement of Net Assets* and the *Statements of Activities*) and governmental funds is reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The proprietary funds are the Food Service and Community Education.

The basic governmental fund financial statements can be found on pages 26 through 37 of this report.

Fiduciary Funds – The schools' activity funds (or agency funds) and the scholarship trust accounts are the District's only fiduciary funds. At June 30, 2012 the asset balances of the schools' activity accounts and the scholarship trust account are \$74,373 and \$452,245 respectively. Due to an investment in marketable securities, one of the scholarship accounts has an unrealized investment gain as of June 30, 2012 of \$32,985.



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets for the Fiscal Years Ending June 30, 2012 and 2011

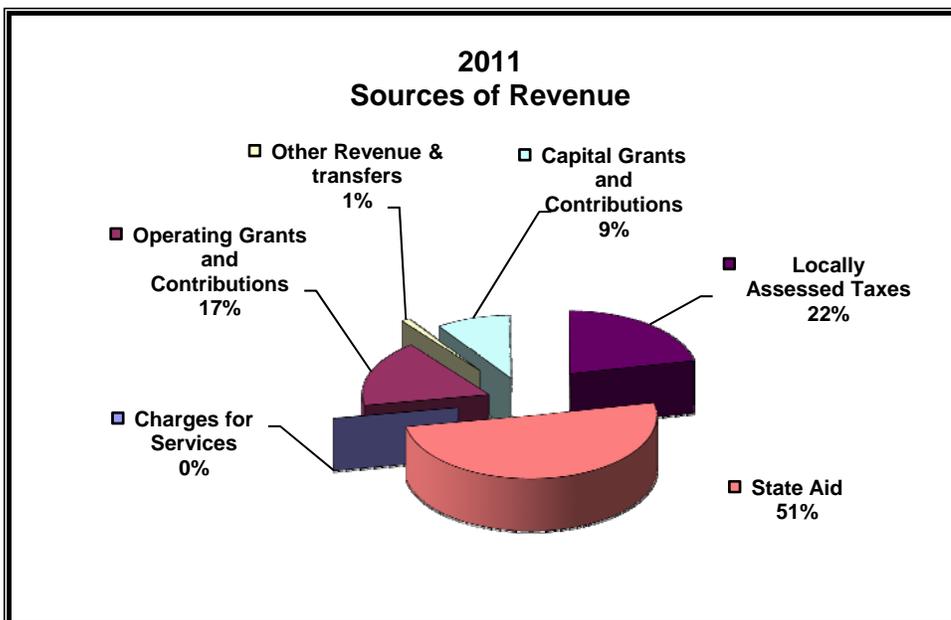
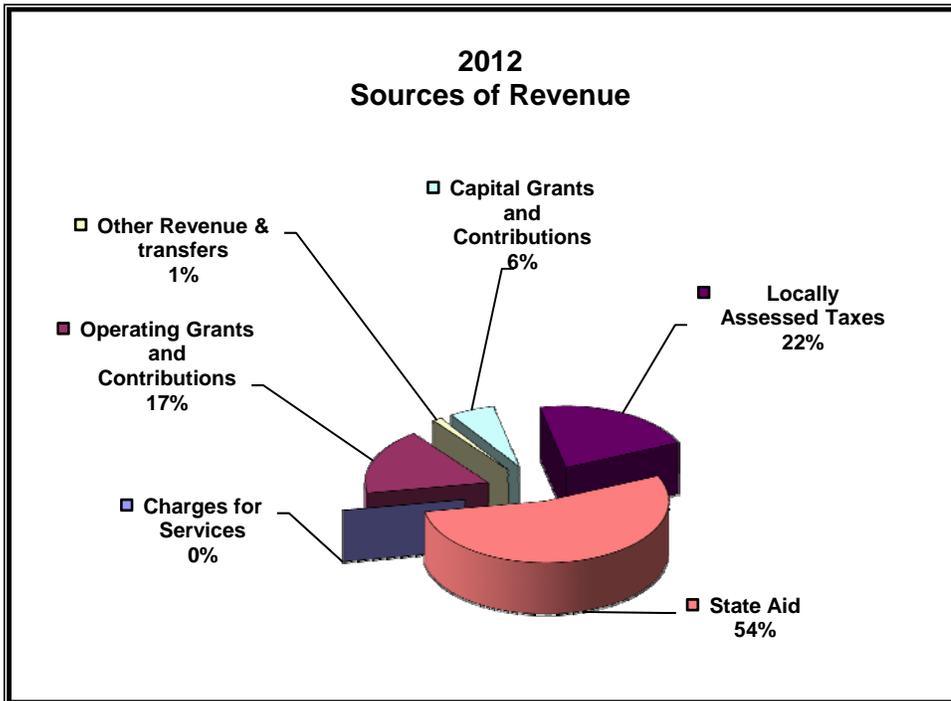
	Governmental Activities		Business-Type Activities		District Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	2,899,479	2,860,009	189,560	205,905	3,089,039	3,065,914
Capital assets	15,224,389	15,576,889	132,547	106,744	15,356,936	15,683,633
Total assets	18,123,868	18,436,898	322,107	312,649	18,445,975	18,749,547
Long-term obligations	9,208,098	9,672,348			9,208,098	9,672,348
Other liabilities	922,115	931,964	228	3,367	922,343	935,331
Total Liabilities	10,130,213	10,604,312	228	3,367	10,130,441	10,607,679
Net Assets						
Invested in capital assets, net of related debt	5,649,447	5,545,286	132,547	106,744	5,781,994	5,652,030
Restricted	88,242	85,318			88,242	85,318
Unrestricted	2,255,966	2,201,982	189,332	202,538	2,445,298	2,404,520
Total Net Assets	7,993,655	7,832,586	321,879	309,282	8,315,534	8,141,868

Changes in Net Assets for the Fiscal Year Ending June 30, 2012 and 2011

	Governmental Activities		Business-Type Activities		District Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues						
Charges for services	4,882	4,925	134,013	133,313	\$ 138,895	\$ 138,238
Op. grants and contributions	1,964,064	1,938,244	546,203	509,312	2,510,267	2,447,556
Cap. grants and contributions	667,610	1,061,830			667,610	1,061,830
General Revenue						
Locally Assessed Taxes	2,454,066	2,456,100			2,454,066	2,456,100
State Aid	6,104,190	5,691,170			6,104,190	5,691,170
Transfers	41,220	43,330			41,220	43,330
Other Revenue	87,915	69,055	446	976	88,361	70,031
Total revenues	11,323,947	11,264,654	680,662	643,601	12,004,609	11,908,255
Expenses						
Instruction & support	7,229,821	6,943,487			7,229,821	6,943,487
District & school admin.	1,288,219	1,296,508			1,288,219	1,296,508
Plant operations	1,579,762	1,611,576			1,579,762	1,611,576
Student transportation	527,558	539,151			527,558	539,151
Interest on long-term debt	374,887	389,670			374,887	389,670
Other	162,631	173,720	1,754	1,497	164,385	175,217
Transfers			41,220	43,330	41,220	43,330
Food service			625,091	565,299	625,091	565,299
Total expenses	11,162,878	10,954,112	668,065	610,126	11,830,943	11,564,238
Change in net assets	\$ 161,069	\$ 310,542	12,597	\$ 33,475	\$ 173,666	\$ 344,017

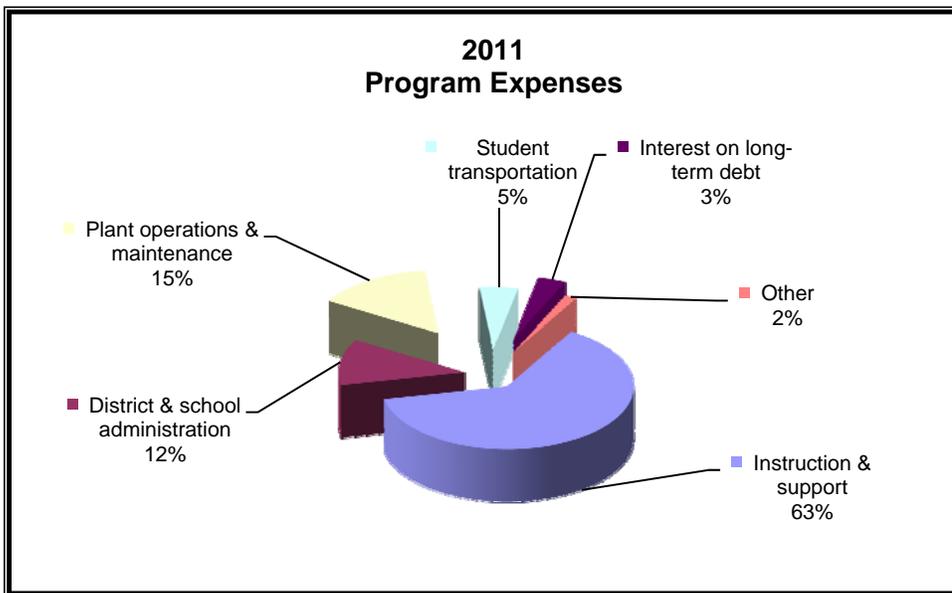
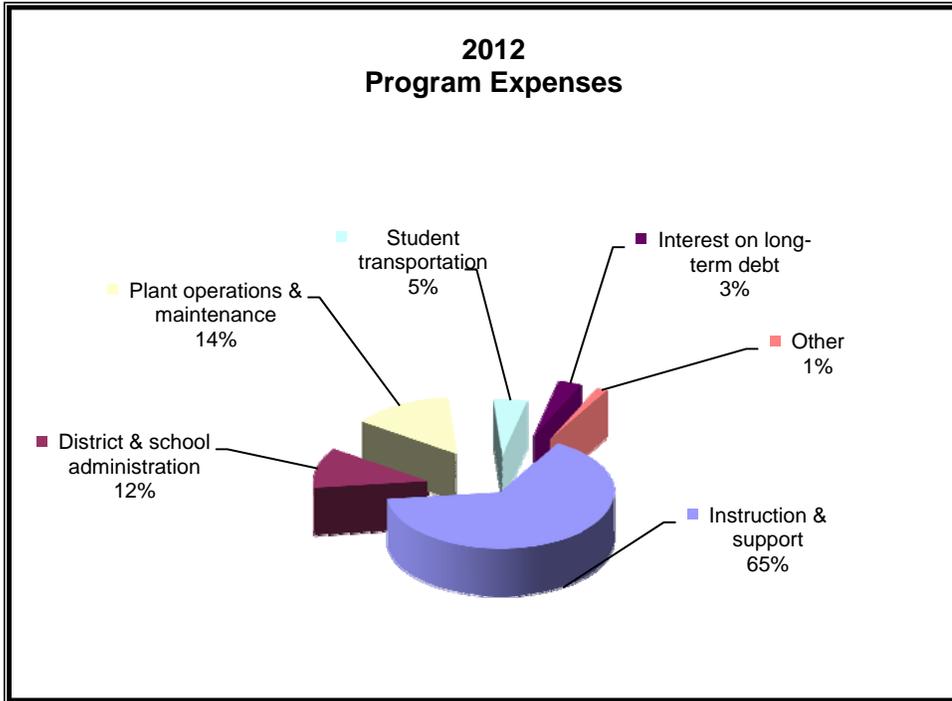


Total Governmental Funds Revenues for the Fiscal Years Ending June 30, 2012 and 2011





Total Governmental Funds Expenses for the Fiscal Years Ending June 30, 2012 and 2011





Using the GASB 34 model of measuring revenue and expenses, which is a different model of revenue and expense recognition than fund accounting, the District's total revenues were \$11,963,389 and the total expenses were \$11,789,723. For the year ending 2012, the total District revenues exceeded expenses by \$173,666. Total revenues increased \$98,464 in 2012. The significant areas of changes in revenues are: 1) the SEEK revenue replaced the prior year federal stimulus (SFSF) funds. 2) Capital Grants and Contributions decreased \$394,220 of which \$375,587 of the decrease was due to federal matching revenue to install new network wiring and additional switches in all district buildings in the prior year. District expenses increased \$268,815 in the 2012 year. 1) District on behalf payments increased approximately \$121,000. 2) Due to the state's economy our unemployment increased approximately \$50,000.

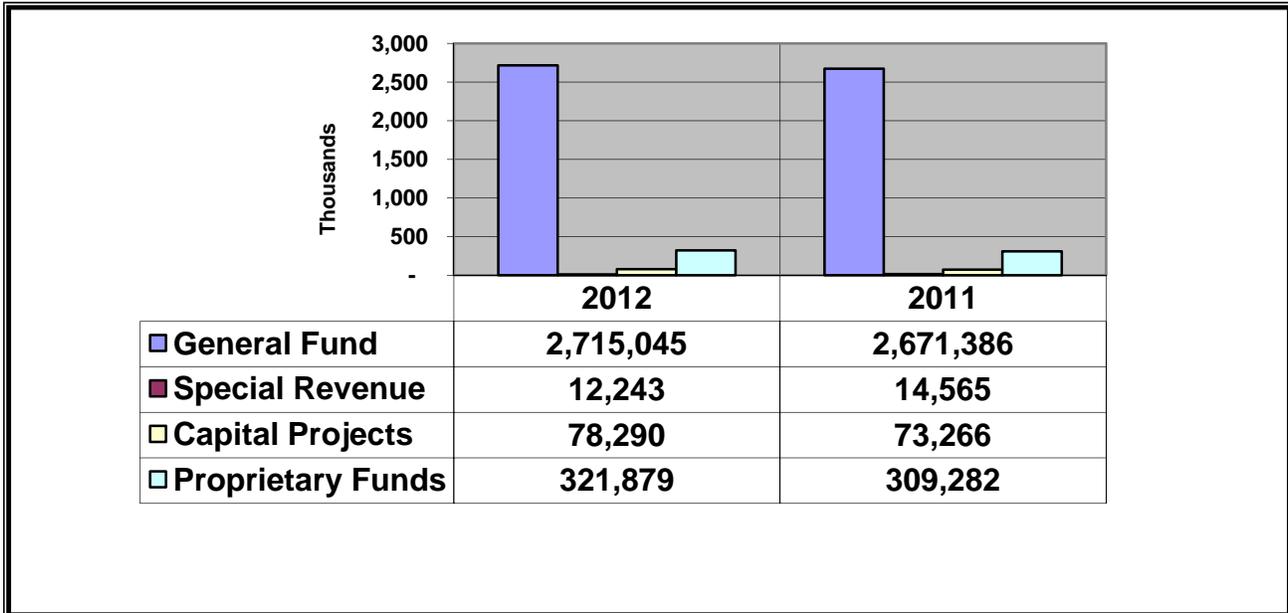
The basis of the Kentucky Education Reform Act (KERA) was to fund school systems based on an average student attendance. In districts where the local property tax base per pupil is less, the state equalizes the revenues by increasing the state's portion of the district's funding. Our District's state aid includes a rental paid by the state for the use of the District's Vocational School Building.

All school principals and staff are given budgets and freedom to work within those budgets. Using the MUNIS accounting system, the District's administration monitors and approves the procurement of purchases prior to the ordering. The close monitoring of cost and vendors results in significant savings to the District.

The financial position of the School Food Service has significantly improved over the past several school years. The Food Service Director with the cooperation of the food service staff and school principals, have been given the responsibility of operating a self-sustaining food service program. The food service program was not supplemented by the General Fund and had a small profit during the current year. We have seen declines in participation due to the rules controlling the types of food served. We are continuing the primary cost control measure, which is centralized food ordering. The food service program pays for the program's costs, including reimbursement of indirect costs and equipment purchases.



Comparative Financial Analysis of the District's Fund Balances using Fund Accounting



The General Fund balance increased slightly by \$43,659. The District's current financial stability is a continued adherence to a good procurement policy, conservative spending and responsible use of federal and state grant funding. The fund balance of the Special Revenue fund decrease \$2,322. A combination of the Capital Project Funds (i.e. Capital Outlay, Building Fund, Construction Fund and Debt Service Fund) increased \$5,024.

General Fund Budgetary Highlights

In accordance with directive from the Kentucky Department of Education (DOE) and Kentucky statutes, the District's budgets are prepared to account for most transactions on a cash receipt / cash disbursement / encumbrance basis. The DOE requires a budget in which any budgeted remaining fund balance is shown as a contingency expense. Any amounts being accumulated for other purposes ultimately is shown as unspent or over-budgeted expenditures. Over the course of the year, the District revises the annual operating budget as circumstances dictate or as required by the DOE. The District's original and final General Fund Budgets are comparable with minimal changes. The total budgeted revenue variance when compared to total actual revenues was less than 1% difference. Slightly more local revenue was generated from utility taxes due to a hotter than normal summer but the increased revenue was offset by a large refund of property taxes to a local manufacturing company. State budgeted revenues are comparable to actual with only a small decrease in rental income from the vocational school due to a decrease in enrollment. The total budgeted expense variance when compared to total actual expenses was approximately a 1% difference. There were no individually significant variances in the budget expenses of the District.



Capital Asset and Debt Administration

Capital Assets:

By June 30, 2012, the District had invested \$15,310,680, net of depreciation, in capital assets. This includes land, school buildings, athletic facilities, computer equipment, equipment, vehicles, and administrative offices. The cumulative total of assets was \$23,717,128 with accumulated depreciation of \$8,406,448. During the year, the District purchased one school bus (\$85,469), replaced the Stevenson Elementary gym heating and air unit (\$64,724) and installed a new serving line at the high school (\$44,200). With the assistance of a grant applied for by the City of Russellville, a new surveillance camera system was installed throughout the elementary school (\$44,955).

SUMMARY OF CAPITAL ASSETS

	Governmental Activities		Business-Type Activities		District Totals	
	2012	2011	2012	2011	2012	2011
Land and improvements	1,511,367	1,511,367			1,511,367	1,511,367
Construction in progress	17,229				17,229	-
Buildings and improvements	18,506,024	18,419,888			18,506,024	18,419,888
Equipment and vehicles	3,355,091	3,284,110	327,417	312,199	3,682,508	3,596,309
	<u>\$ 23,389,711</u>	<u>\$ 23,215,365</u>	<u>\$ 327,417</u>	<u>\$ 312,199</u>	<u>\$ 23,717,128</u>	<u>\$ 23,527,564</u>

Long-Term Debt:

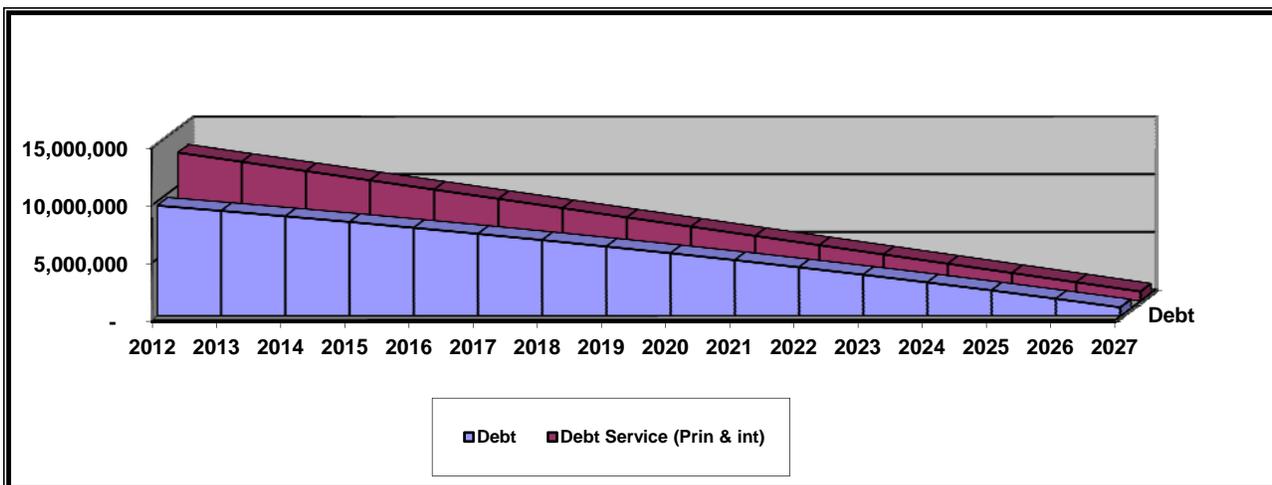
At year-end, the District had \$9,630,000 in General Obligation Bonds outstanding. The debt was decreased \$440,000 during the year. In 2012, final bond payments were made on the 2001R and 2002 bond issues to replace flooring, roofs and improve accessibility at the old middle school. The following table represents the current debt schedule of the District. In June 2012, the board voted to refinance through a bond refunding the Series 2001 KISTA bond. The refunded is estimated to save a little over \$12,600 over the life of the bond.



SUMMARY OF LONG-TERM DEBT

Series	Purpose	Governmental Activities 2012	Governmental Activities 2011	Increase (Decrease)
Series 2001 KISTA	HVAC and paving improvements at high school. Roof and paving improvement at elementary school.	250,000	305,000	(55,000)
Series 2001R KISTA	Accessibility improvements and roofing at middle school.	-	35,000	(35,000)
Series 2002 KISTA	Flooring at middle school.	-	15,000	(15,000)
Series 2004	Construction of media centers at each school.	1,020,000	1,215,000	(195,000)
Series 2008	7-8 Center construction, elementary school addition and remodeling.	8,360,000	8,500,000	(140,000)
		<u>\$ 9,630,000</u>	<u>\$ 10,070,000</u>	<u>\$ (440,000)</u>

The following table represents the current maturities and debt service cash flows, (principal and interest), of the District.





DISTRICT CHALLENGES FOR THE FUTURE

It is extremely important that the District continue to budget very conservatively. The District receives approximate 72.8% of its General Fund revenue each year through state funding sources. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not receive the revenue from taxing sources, an adjustment will be made to the funding formula. The District should always be prepared for such reductions in funding.

Approximately 26.3% of the General Fund revenue is from local sources. The major portion of the tax revenue does not come to the District until the fifth through the seventh month of the fiscal year. This means the General Fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a sufficient beginning balance to start each year. The District has an ending General Fund balance of \$2,715,045 or 26.1% of the total governmental fund's actual expenditures, (excluding Capital Projects funds), as a beginning balance for next year.

The District's January 2011 tax base increased \$1,231,895 or .5%. The hope is the slight positive increase is due to a turnaround in the economy. The school's administration, as well as school staff, is working to improve school attendance. The District receives funding through the SEEK formula based on the attendance count. There are a very limited number of new homes constructed within the boundaries of the District. Therefore, growth within the District is limited. It is vital that our schools have high attendance percentages and parents and students should continue to choose Russellville Independent Schools. Maintaining excellence and emphasizing serving the public are the main factors influencing this District challenge. The schools are working in concert to improve student achievement and test scores.

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Mr. Leon Smith, Superintendent or Mr. Mark Coursey, Director of Finance (270)726-8405, 355 South Summer Street, Russellville, Kentucky 42276. Their email addresses are leon.smith@russellville.kyschools.us or mark.coursey@russellville.kyschools.us.

Basic Financial Statements

Russellville Independent School District
Statement of Net Assets

June 30, 2012	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 2,633,933	\$ 157,667	\$ 2,791,600
Investments	10,545	-	10,545
Accounts receivable:			
Taxes	78,961	-	78,961
Accounts	22,520	-	22,520
Intergovernmental	153,520	-	153,520
Inventory	-	31,893	31,893
Bond issuance cost	68,670	-	68,670
Less: accumulated amortization	(22,414)	-	(22,414)
Non-depreciable capital assets	243,044	-	243,044
Depreciable capital assets	23,146,667	327,417	23,474,084
Less: accumulated depreciation	(8,211,578)	(194,870)	(8,406,448)
Total assets	18,123,868	322,107	18,445,975
Liabilities			
Accounts payable	84,122	228	84,350
Accrued liabilities	221	-	221
Deferred revenue	9,558	-	9,558
Accrued interest	94,990	-	94,990
Long-term obligations:			
Due within one year:			
Outstanding bonds	455,000	-	455,000
Other	18,120	-	18,120
Compensated absences	260,104	-	260,104
Due beyond one year:			
Outstanding bonds	9,036,328	-	9,036,328
Other	19,238	-	19,238
Compensated absences	152,532	-	152,532
Total liabilities	10,130,213	228	10,130,441

June 30, 2012	Governmental Activities	Business-Type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	5,649,447	132,547	5,781,994
Restricted for:			
Grant programs	9,952	-	9,952
Capital projects	78,290	-	78,290
Unrestricted	2,255,966	189,332	2,445,298
Total Net Assets	\$ 7,993,655	\$ 321,879	\$ 8,315,534

See accompanying notes to the financial statements.

Russellville Independent School District
Statement of Activities

Year Ended June 30, 2012	Expenses	Program Revenues			Net (Expense) Revenue and Changes In Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities							
Instruction	\$ 5,807,445	\$ 4,047	\$ 1,121,880	\$ 37,300	\$ (4,644,218)	\$ -	\$ (4,644,218)
Support services:							
Student	601,521	-	175,357	-	(426,164)	-	(426,164)
Instructional staff	820,855	-	493,287	-	(327,568)	-	(327,568)
District administration	384,281	-	-	-	(384,281)	-	(384,281)
School administration	558,630	-	-	-	(558,630)	-	(558,630)
Business	345,308	-	-	-	(345,308)	-	(345,308)
Plant operations and maintenance	1,579,762	835	1,029	-	(1,577,898)	-	(1,577,898)
Student transportation	527,558	-	13,245	-	(514,313)	-	(514,313)
Other	159,695	-	159,266	-	(429)	-	(429)
Building improvement	-	-	-	81,644	81,644	-	81,644
Interest on long-term debt	374,887	-	-	548,666	173,779	-	173,779
Loss on disposal of assets	2,936	-	-	-	(2,936)	-	(2,936)
Total governmental activities	11,162,878	4,882	1,964,064	667,610	(8,526,322)	-	(8,526,322)
Business-Type Activities							
Food services	625,091	131,873	546,203	-	-	52,985	52,985
Community education	1,754	2,140	-	-	-	386	386
Total business-type activities	626,845	134,013	546,203	-	-	53,371	53,371
Total School District	\$ 11,789,723	\$ 138,895	\$ 2,510,267	\$ 667,610	(8,526,322)	53,371	(8,472,951)

General Revenues			
Taxes:			
Property	1,756,134	-	1,756,134
Motor vehicle	131,134	-	131,134
Utilities	461,213	-	461,213
Other	105,585	-	105,585
State aid	6,104,190	-	6,104,190
Investment earnings	8,630	395	9,025
Other	79,285	51	79,336
Transfers	41,220	(41,220)	-
<hr/>			
Total general revenues and transfers	8,687,391	(40,774)	8,646,617
<hr/>			
Change in Net Assets	161,069	12,597	173,666
Net Assets – Beginning of Year	7,832,586	309,282	8,141,868
<hr/>			
Net Assets – End of Year	\$ 7,993,655	\$ 321,879	\$ 8,315,534
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See accompanying notes to the financial statements.

Russellville Independent School District
Balance Sheet
Governmental Funds

June 30, 2012	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 2,555,643	\$ -	\$ 78,290	\$ 2,633,933
Investments	10,545	-	-	10,545
Accounts receivable:				
Taxes	78,961	-	-	78,961
Accounts	22,520	-	-	22,520
Intergovernmental	-	153,520	-	153,520
Due from other funds	124,600	-	-	124,600
Total Assets	\$ 2,792,269	\$ 153,520	\$ 78,290	\$ 3,024,079

Liabilities and Fund Balances

Liabilities				
Accounts payable	\$ 77,003	\$ 7,119	\$ -	\$ 84,122
Accrued liabilities	221	-	-	221
Due to other funds	-	124,600	-	124,600
Deferred revenue	-	9,558	-	9,558
Total liabilities	77,224	141,277	-	218,501
Fund Balances				
Restricted	-	9,952	78,290	88,242
Committed	1,695,000	-	-	1,695,000
Assigned	11,464	2,291	-	13,755
Unassigned	1,008,581	-	-	1,008,581
Total fund balances	2,715,045	12,243	78,290	2,805,578
Total Liabilities and Fund Balances	\$ 2,792,269	\$ 153,520	\$ 78,290	\$ 3,024,079

Russellville Independent School District
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Assets

June 30,	2012
Total Fund Balances – Governmental Funds	\$ 2,805,578
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$23,389,711, and the accumulated depreciation is \$8,211,578.	15,178,133
Bond issuance costs are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$68,670 and the accumulated amortization is \$22,414.	46,256
Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:	
Bonds payable	(9,491,328)
Accrued interest on the bonds	(94,990)
Other debt	(37,358)
Compensated absences	(412,636)
Total Net Assets – Governmental Activities	\$ 7,993,655

See accompanying notes to the financial statements.

Russellville Independent School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year Ended June 30, 2012	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ 1,487,176	\$ -	\$ 268,958	\$ 1,756,134
Motor vehicle	131,134	-	-	131,134
Utilities	461,213	-	-	461,213
Other	105,585	-	-	105,585
Earnings on investments	8,630	-	-	8,630
Other local revenue	9,680	28,474	-	38,154
Intergovernmental – state	6,104,190	483,567	630,310	7,218,067
Intergovernmental – federal	74,487	1,489,323	-	1,563,810
Total revenues	8,382,095	2,001,364	899,268	11,282,727
Expenditures				
Current:				
Instruction	4,677,731	1,190,231	-	5,867,962
Support services:				
Student	420,168	175,357	-	595,525
Instructional staff	310,325	493,287	-	803,612
District administration	398,822	-	-	398,822
School administration	556,062	-	-	556,062

Business	344,150	-	-	344,150
Plant operations and maintenance	1,083,041	1,029	-	1,084,070
Student transportation	560,628	13,245	-	573,873
Other	-	159,266	-	159,266
Debt service:				
Principal	-	-	440,000	440,000
Interest	-	-	364,638	364,638
Building improvements	-	-	89,606	89,606
Total expenditures	8,350,927	2,032,415	894,244	11,277,586
Excess (Deficiency) of Revenues over Expenditures	31,168	(31,051)	5,024	5,141
Other Financing Sources (Uses)				
Operating transfers in	41,220	28,729	752,064	822,013
Operating transfers out	(28,729)	-	(752,064)	(780,793)
Total other financing sources (uses)	12,491	28,729	-	41,220
Net Change in Fund Balances	43,659	(2,322)	5,024	46,361
Fund Balances – Beginning of Year	2,671,386	14,565	73,266	2,759,217
Fund Balances – End of Year	\$ 2,715,045	\$ 12,243	\$ 78,290	\$ 2,805,578

Russellville Independent School District
 Reconciliation of the Governmental Funds
 Statement of Revenues, Expenditures and Changes in
 Fund Balances to the Statement of Activities

Year Ended June 30,	2012
Total Net Change in Fund Balances – Governmental Funds	\$ 46,361
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$697,237) exceeds capital outlays (\$351,835) in the period.	(345,402)
Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. The difference between proceeds from the sale of assets and the actual gain/loss from the sale net to this amount for the year.	(2,936)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	462,917
Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.	129
Change in Net Assets – Governmental Activities	\$ 161,069

See accompanying notes to the financial statements.

Russellville Independent School District
Statement of Net Assets
Proprietary Funds

June 30, 2012	Enterprise Fund Food Service	Other Enterprise Funds	Total
Assets			
Current Assets			
Cash	\$ 154,284	\$ 3,383	\$ 157,667
Inventory	31,893	-	31,893
Total current assets	186,177	3,383	189,560
Noncurrent Assets			
Fixed assets – net	132,547	-	132,547
Total Assets	\$ 318,724	\$ 3,383	\$ 322,107
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 228	\$ -	\$ 228
Total current liabilities	228	-	228
Net Assets			
Invested in capital assets	132,547	-	132,547
Unrestricted	185,949	3,383	189,332
Total net assets	318,496	3,383	321,879
Total Liabilities and Net Assets	\$ 318,724	\$ 3,383	\$ 322,107

See accompanying notes to the financial statements.

Russellville Independent School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year Ended June 30, 2012	Enterprise Fund Food Service	Other Enterprise Funds	Total
Operating Revenues			
Lunchroom sales	\$ 131,873	\$ -	\$ 131,873
Tuition and fees	-	2,140	2,140
Total operating revenues	131,873	2,140	134,013
Operating Expenses			
Instruction	-	1,754	1,754
Salaries and wages	286,682	-	286,682
Contract services	25,099	-	25,099
Materials and supplies	297,531	-	297,531
Depreciation expense	15,779	-	15,779
Total operating expenses	625,091	1,754	626,845
Operating income (loss)	(493,218)	386	(492,832)
Non-Operating Revenues (Expenses)			
State operating grants	49,068	-	49,068
Federal operating grants	460,873	-	460,873
Donated commodities	38,880	-	38,880
Interest revenue	395	-	395
Loss on disposal of assets	(2,618)	-	(2,618)
Other	51	-	51
Total non-operating revenues (expenses)	546,649	-	546,649
Income before transfers	53,431	386	53,817
Transfers	(41,220)	-	(41,220)
Change in Net Assets	12,211	386	12,597
Total Net Assets – Beginning of Year	306,285	2,997	309,282
Total Net Assets – End of Year	\$ 318,496	\$ 3,383	\$ 321,879

See accompanying notes to the financial statements.

Russellville Independent School District
Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2012	Enterprise Fund Food Service	Other Enterprise Funds	Total
Cash Flows from Operating Activities			
Cash received from user charges	\$ 131,873	\$ 2,140	\$ 134,013
Cash payments to employees for services	(244,106)	-	(244,106)
Cash payments for contract services	(25,099)	-	(25,099)
Cash payments to suppliers for goods and services	(268,565)	-	(268,565)
Cash payments for other operating expenses	-	(1,754)	(1,754)
Net cash provided by (used in) operating activities	(405,897)	386	(405,511)
Cash Flows from Noncapital Financing Activities			
Indirect cost transfer to general fund	(41,220)	-	(41,220)
Non-operating grants received	467,365	-	467,365
Other	51	-	51
Net cash provided by noncapital financing activities	426,196	-	426,196
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(44,200)	-	(44,200)
Net cash used by capital and related financing activities	(44,200)	-	(44,200)
Cash Flows from Investing Activities			
Interest on investments	395	-	395
Net cash provided by investing activities	395	-	395
Net Increase (Decrease) in Cash	(23,506)	386	(23,120)
Cash – Beginning of Year	177,790	2,997	180,787
Cash – End of Year	\$ 154,284	\$ 3,383	\$ 157,667

Year Ended June 30, 2012	Enterprise Fund Food Service	Other Enterprise Funds	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities			
Operating income (loss)	\$ (493,218)	\$ 386	\$ (492,832)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	15,779	-	15,779
Commodities received	38,880	-	38,880
On-behalf payments	42,576	-	42,576
Changes in assets and liabilities:			
Inventories	(6,776)	-	(6,776)
Accounts payable	(3,138)	-	(3,138)
<hr/>			
Net Cash Provided By (Used In) Operating Activities	\$ (405,897)	\$ 386	\$ (405,511)

Noncash Activities

- The food service fund received \$38,880 of donated commodities from the federal government.
- The District received on-behalf payments of \$42,576 relating to insurance benefits.

See accompanying notes to the financial statements.

Russellville Independent School District
Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2012	Agency Funds	Private Purpose Trust Funds
Assets		
Cash	\$ 73,404	\$ 41,109
Investments	-	411,136
Accounts receivable	969	-
Total Assets	\$ 74,373	\$ 452,245
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 5,598	\$ -
Due to student groups	68,775	-
Total liabilities	74,373	-
Net Assets		
Held in trust for scholarships	-	452,245
Total net assets	-	452,245
Total Liabilities and Net Assets	\$ 74,373	\$ 452,245

See accompanying notes to the financial statements.

Russellville Independent School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year Ended June 30, 2012	Private Purpose Trust Funds
Additions	
Earnings on investments	\$ 14,991
Unrealized gain on investments	12,847
Total additions	27,838
Deductions	
Scholarships	2,600
Administrative fees	984
Total deductions	3,584
Change in Net Assets	24,254
Net Assets – Beginning of Year	427,991
Net Assets – End of Year	\$ 452,245

See accompanying notes to the financial statements.

Note 1: Summary of Significant Accounting Policies

• ***Reporting Entity***

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

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

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:

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

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Basis of Presentation***

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 District, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Note 1: Summary of Significant Accounting Policies
(Continued)

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 total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

▶ **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unassigned fund balances are considered as resources available for use. The general fund is a major fund.

The *Special Revenue Fund* accounts for proceeds of specific revenue sources that are restricted, committed or assigned to expenditures for specified purposes other than debt service or capital projects. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards. The special revenue fund is a major fund.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments.

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 and certain operating costs.

Note 1: Summary of Significant Accounting Policies
(Continued)

The *Facility Support Program of Kentucky (FSPK) Fund* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

Debt Service Funds are used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest and other debt related costs.

▶ **Proprietary Fund Types**

Enterprise Funds

The *Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contributions of commodities from the USDA. The food service fund is a major fund.

The *Community Education Fund* is used to account for local community education activities.

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

▶ **Fiduciary Fund Types** (includes agency funds and private purpose trust funds)

Fiduciary funds account for assets held by the District in a trustee's capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

Note 1: Summary of Significant Accounting Policies
(Continued)

Agency Funds

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

Private Purpose Trust Funds

The *Private Purpose Trust Fund* is used to report trust arrangements under which principal and income benefit individuals.

● ***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.

The records of the District and the budgetary process are based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the general fund, special revenue fund and capital projects funds.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

Note 1: Summary of Significant Accounting Policies
(Continued)

The financial statements of the governmental fund types are prepared on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The proprietary funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

• ***Estimates***

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

• ***Investments***

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

• ***Inventory***

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the proprietary funds, which record inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

• ***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-

Note 1: Summary of Significant Accounting Policies
(Continued)

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.

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 \$1,000 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 asset's life are not capitalized.

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

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

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **Deferred Revenue**

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

Note 1: Summary of Significant Accounting Policies
(Continued)

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

• ***Compensated Absences***

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave when earned for all employees with more than five years of service.

The entire compensated absences liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account in the funds from which the employees will be paid.

• ***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

• ***Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing 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 District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Property Taxes***

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

• ***Revenues — Exchange and Non-Exchange Transactions***

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis of accounting, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis of accounting, assets and revenues from property taxes are 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. Revenues from non-exchange transactions must also be available before they can be recognized.

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as non-operating revenues/expenses in proprietary funds.

• ***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.

• ***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.

• ***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

• ***Subsequent Events***

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through October 26, 2012, which was the date the financial statements were made available.

• ***New Accounting Pronouncements***

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, effective immediately for the provisions related to the use and reporting of the alternative measurement method, and effective for periods beginning

Note 1: Summary of Significant Accounting Policies
(Continued)

after June 15, 2011, for the provisions related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. This statement addresses issues related to the use of the alternative measurement method and the frequency and timing of the measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The new requirements are not applicable to the District.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011, improves financial reporting by addressing issues related to service concession arrangements (SCA's), which are a type of public-private or public partnership. The new requirements are not applicable to the District.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an Amendment of GASB Statements No. 14 and No. 34*, effective for periods beginning after June 15, 2012, improves financial reporting by enhancing guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The new requirements are not applicable to the District.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011, incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements. The District intends to implement the new requirements for the fiscal year 2012–13 financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, effective for periods beginning after December 15, 2011, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District intends to implement the new requirements for the fiscal year 2012–13 financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an Amendment of GASB Statement No. 53*, effective for

Note 1: Summary of Significant Accounting Policies
(Continued)

periods beginning after June 15, 2011, clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The new requirements are not applicable to the District.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to provide more consistent financial reporting. The District plans to implement the new requirements for the fiscal year 2013–2014.

GASB Statement No. 66, *Technical Corrections—2012: an Amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District plans to implement the new requirements for the fiscal year 2013–2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans: an Amendment of GASB Statement No. 25*, effective for fiscal years beginning after June 15, 2013, improves financial reporting by state and local governmental pension plans. The new requirements are not applicable to the District.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions: an Amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014, improves information provided by state and local governmental employers about financial support for pensions, which is provided by other entities. The District plans to implement the new requirements for the fiscal year 2014–2015. The effects of this statement on the District are unknown.

Note 2: Cash and Investments

• **Deposits**

At June 30, 2012, the carrying amounts of the District's deposits were \$2,906,113 and the bank balances were \$3,364,832 which were covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

Russellville Independent School District
Notes to Financial Statements (Continued)

Note 2: Cash and Investments (Continued)

The carrying amounts are reflected in the financial statements as follows:

June 30,	2012
Governmental funds	\$ 2,633,933
Proprietary funds	157,667
Fiduciary funds	114,513
	\$ 2,906,113

▶ *Custodial Credit Risk - Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. The District's bank balance of \$3,364,832 was not exposed to custodial credit risk as of June 30, 2012.

● **Investments**

June 30, 2012			
General Fund Investments	Rating	Maturities	Fair Value
Money Market	N/R	On Demand	\$ 1,113
Federal Home Loan Mortgage Corporation	AAA	6/25/2023	3,139
Federal National Mortgage Association	AAA	3/25/2023	6,293
			\$ 10,545

June 30, 2012			
Trust Fund Investments	Rating	Maturities	Fair Value
Money Market	N/R	On Demand	\$ 17,920
Chicago IL Board of Education Bab GO	AA-/Aa3/A+	12/1/2021	21,788
KS Dev Fin Build America Bonds	AA/Aa2	11/1/2024	11,412
Paducah Kentucky Electric Plant Board Bonds	Aa3/A-	10/1/2023	33,159

Russellville Independent School District
Notes to Financial Statements (Continued)

Note 2: Cash and Investments (Continued)

June 30, 2012

Trust Fund Investments	Rating	Maturities	Fair Value
Brier Creek Sch Bldg Corp in First MTG Build America Bonds	AA+	7/15/2024	23,526
Eastern Kentucky University General Receipts Series A	A+/Aa3	10/1/2027	15,743
Jefferson Co Health Facilities Rev Alliant Health Systems Inc	BBB	10/1/2027	5,007
Benton Co WA Public Utility District	A+/Aa3/A+	11/1/2026	35,343
Jefferson Co Health Facilities Rev Alliant Health Systems Inc	BBB/Baa2/A-	10/1/2027	4,991
Kentucky Economic Development Finance Authority Baptist Healthcare	A1/AA-	8/15/2042	15,707
Jefferson Co Health Facilities Rev Alliant Health Systems Inc	BBB	10/1/2028	26,129
Kentucky ST Mun Pwr Agy Pwr Sys Rev Prairie ST Proj Ser A	A-/A3	9,1/2037	31,496
American Mutual Fund CL A	N/R	-	56,906
Capital World Growth & Income Fund CL A	N/R	-	58,913
Income Fund of America CL A	N/R	-	53,096
			\$ 411,136

▶ *Interest Rate Risk*

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

▶ *Credit Risk*

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. The District has no investment policy that would further limit its investment choices.

Note 2: Cash and Investments *(Continued)*

▶ *Concentration of Credit Risk*

The District places no limit on the amount the District may invest in any one issuer. More than five percent of the District's investments are in Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. These investments are 60% and 30% of the District's total investments, respectively.

Note 3: Interfund Receivables and Payables

Interfund balances at June 30, 2012 consist of the following:

June 30, 2012		
Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue	\$ 124,600

The amount represents an interfund loan between the general fund and special revenue fund that is necessary to fulfill the current cash requirements of the special revenue fund.

Note 4: Capital Assets

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

June 30, 2012	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 225,815	\$ -	\$ -	\$ 225,815
Construction in progress	-	89,606	72,377	17,229
Total nondepreciable historical cost	225,815	89,606	72,377	243,044

Russellville Independent School District
Notes to Financial Statements (Continued)

Note 4: Capital Assets (Continued)

June 30, 2012	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Capital assets that are depreciated:				
Land improvements	1,285,552	-	-	1,285,552
Buildings and improvements	18,419,888	86,136	-	18,506,024
Technology equipment	1,312,824	128,123	84,771	1,356,176
Vehicles	1,135,516	85,469	92,718	1,128,267
General	835,770	34,878	-	870,648
Total depreciable historical cost	22,989,550	334,606	177,489	23,146,667
Less accumulated depreciation for:				
Land improvements	809,446	36,104	-	845,550
Buildings and improvements	4,984,729	423,001	-	5,407,730
Technology equipment	879,215	140,254	81,835	937,634
Vehicles	662,629	51,935	92,718	621,846
General	352,875	45,943	-	398,818
Total accumulated depreciation	7,688,894	697,237	174,553	8,211,578
Total depreciable historical cost, net	15,300,656	(362,631)	2,936	14,935,089
Governmental Activities, Capital Assets, Net	\$ 15,526,471	\$ (273,025)	\$ 75,313	\$ 15,178,133
Business-Type Activities:				
General	\$ 312,199	\$ 44,200	\$ 28,982	\$ 327,417
Less: accumulated depreciation	205,455	15,779	26,364	194,870
Business-Type Activities, Capital Assets, Net	\$ 106,744	\$ 28,421	\$ 2,618	\$ 132,547

Russellville Independent School District
Notes to Financial Statements (Continued)

Note 4: Capital Assets *(Continued)*

Depreciation expense was charged to governmental functions as follows:

June 30,	2012
Instruction	\$ 88,585
Support services:	
Student support	5,996
Instructional staff	17,243
District administration	23,743
School administration	2,568
Business support	1,158
Facilities operations	512,236
Student transportation	45,279
Other	429
Total Depreciation Expense	\$ 697,237

Note 5: Long-Term Debt

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

Issue Date	Proceeds	Rates
2001	\$ 740,000	3.80%—5.00%
2001R	330,000	3.65%
2002	125,000	3.00%—4.20%
2004R	1,535,000	2.125%—3.80%
2008	8,905,000	2.50%—3.75%

Russellville Independent School District
Notes to Financial Statements (Continued)

Note 5: Long-Term Debt *(Continued)*

The District, through the General Fund, including utility taxes and the SEEK capital outlay fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Russellville Independent 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 entered into “participation agreements” with the School Facility Construction Commission (SFCC). 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 follow:

Year	Russellville Independent School District		School Facility Construction Commission		Total Debt Service
	Interest	Principal	Interest	Principal	
2012—2013	\$ 289,701	\$ 373,297	\$ 60,168	\$ 81,703	\$ 804,869
2013—2014	276,471	390,846	57,716	84,154	809,187
2014—2015	262,073	403,321	55,192	86,679	807,265
2015—2016	246,668	420,591	52,462	89,409	809,130
2016—2017	231,954	432,640	49,510	92,360	806,464
2017—2018	217,244	449,500	46,370	95,500	808,614
2018—2019	201,512	461,157	43,028	98,843	804,540
2019—2020	185,372	477,698	39,568	102,302	804,940
2020—2021	168,414	494,066	35,936	105,934	804,350
2021—2022	150,626	515,253	32,124	109,747	807,750
2022—2023	131,820	531,247	28,118	113,753	804,938
2023—2024	111,898	551,981	23,852	118,019	805,750

Russellville Independent School District
Notes to Financial Statements (Continued)

Note 5: Long-Term Debt (Continued)

Year	Russellville Independent School District		School Facility Construction Commission		Total Debt Service
	Interest	Principal	Interest	Principal	
2024—2025	91,200	572,555	19,426	122,445	805,626
2025—2026	69,728	597,964	14,834	127,036	809,562
2026—2027	47,304	618,200	10,070	131,800	807,374
2027—2028	24,122	643,257	5,126	136,743	809,248
	\$ 2,706,107	\$ 7,933,573	\$ 573,500	\$ 1,696,427	\$ 12,909,607

Maturities of other debt are as follow for the fiscal years ending:

<u>June 30,</u>	
2013	\$ 18,120
2014	19,238
	\$ 37,358

Changes in long-term debt are as follow:

June 30, 2012	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due Within One Year
Bonds and notes payable:					
Bonds	\$10,070,000	\$ -	\$ (440,000)	\$ 9,630,000	\$ 455,000
Less: deferred issuance discount	(149,090)	-	10,418	(138,672)	-
Total bonds and notes payable	9,920,910	-	(429,582)	9,491,328	455,000

Russellville Independent School District
Notes to Financial Statements (Continued)

Note 5: Long-Term Debt *(Continued)*

June 30, 2012	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due Within One Year
Other liabilities:					
Other	60,275	-	(22,917)	37,358	18,120
Compensated absences	422,739	24,128	(34,231)	412,636	260,014
Total other liabilities	483,014	24,128	(57,148)	449,994	278,134
Total Long-Term Liabilities	\$10,403,924	\$ 24,128	\$ (486,730)	\$ 9,941,322	\$ 733,134

Note 6: Fund Balances

The Board follows GASB Statement Number 54. Under this statement, fund balance is separated into five categories, as follows:

Nonspendable fund balances are amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.

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 \$78,290 as restricted for capital projects in the capital outlay and construction funds and \$9,952 restricted in the special revenue fund for local grants.

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.

Note 6: Fund Balances *(Continued)*

The District had the following commitments at June 30, 2012: \$265,000 for compensated absences and \$1,430,000 for a minimum fund balance policy.

Assigned fund balances are 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 \$11,464. Assigned fund balances 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. Other assigned fund balance at June 30, 2012 was \$2,291.

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.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations using restricted funds first, followed by committed funds, assigned funds and then unassigned funds. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically rebudgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2012 in the governmental funds balance sheet.

Statutorily, the Kentucky Department of Education may assume financial control over any school district whose fund balance drops below 2% of the total expenditures of certain funds. To maintain balances above this level, they recommend reserving at least 5%. On June 19, 2012, the Board committed \$1,430,000 of funds to ensure the fund balance remains above these levels. While these funds have been properly committed and not budgeted for future years' expenditures, there is no mandate on how these funds would be used if the Board fell below this floor.

Note 7: Pension Plans

• ***Plan Descriptions***

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

• ***Funding Policy***

KTRS plan members are required to contribute 10.355% (10.855% for new hires effective July 1, 2008) of their covered salary. CERS plan members are required to contribute 5.0% (6.0% for new hires effective July 1, 2008) of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS is 13.605% (14.105% for new hires effective July 1, 2008) of annual covered payroll. The rate for CERS is 18.96%, 16.93% and 16.16% for the years ended June 30, 2012, 2011 and 2010, respectively, of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2012, 2011 and 2010 were \$281,833, \$255,658 and \$246,737, respectively, equal to the required contributions for each year.

For the year ended June 30, 2012, the Commonwealth contributed \$504,202 to the KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ended June 30, 2012 were \$137,310.

Note 7: Pension Plans *(Continued)*

The amount recognized for revenues and expenditures for on-behalf payments relating to fringe benefits such as pension and health care costs, and other operating costs, for the year ended June 30, 2012 was \$1,538,514 for governmental funds and \$42,576 for proprietary funds.

• **Medical Insurance Plan**

Plan Description — In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS medical insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

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

Funding Policy — In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 0.5% of members' salary for the 2011–2012 fiscal year.

• **Deferred Compensation Plans**

The District offers its employees to defer compensation in accordance with Internal Revenue Code Sections 457, 401(k) and 403(b). The Plans, available to all employees, permit 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 in the financial statement.

Note 8: 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 the grantor's review indicates that the funds have not 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 9: 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 are covered through the purchase of commercial insurance.

Note 10: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District purchases commercial insurance.

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

Note 11: Excess Expenditures Over Appropriations

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

June 30, 2012	
Fund	Amount
Special revenue	\$ 2,322
Construction	7,962

Note 12: Fund Transfers

Fund transfers for the year ended June 30, 2012 consist of the following:

June 30, 2012			
From Fund	To Fund	Purpose	Amount
General fund	Special revenue fund	Matching	\$ 18,650
General fund	Special revenue fund	Expenditures	10,079
SEEK	Construction	Construction	80,619
FSPK	Construction	Construction	1,025
FSPK	Debt service	Debt service	662,767
Food service	General fund	Indirect costs	41,220

Note 13: Subsequent Event

On August 9, 2012, the District issued a \$252,550 KISTA bond to refund a KISTA KADD series 2001 bond resulting in a savings of \$12,104.

Required Supplementary Information

Russellville Independent School District
Budgetary Comparison Schedule for the General Fund

Year Ended June 30, 2012	Budgeted Amounts		Actual (Budgetary Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Local and intermediate sources	\$ 2,198,750	\$ 2,227,800	\$ 2,203,418	\$ (24,382)
State programs	4,650,790	4,572,161	4,565,676	(6,485)
Federal programs	34,700	34,700	74,487	39,787
Total revenues	6,884,240	6,834,661	6,843,581	8,920
Expenditures				
Current:				
Instruction	3,537,582	3,655,976	3,591,081	64,895
Support services:				
Student	403,090	327,537	320,059	7,478
Instructional staff	311,485	239,845	256,993	(17,148)
District administration	321,885	329,455	343,306	(13,851)
School administration	424,435	438,549	437,689	860
Business	287,676	292,770	289,866	2,904
Plant operations and maintenance	1,093,190	1,055,580	1,058,560	(2,980)
Student transportation	528,150	538,315	514,859	23,456
Facility construction	200,000	-	-	-
Debt service	12,234	6,125	-	6,125
Total expenditures	7,119,727	6,884,152	6,812,413	71,739

Excess (Deficiency) of Revenues over Expenditures	(235,487)	(49,491)	31,168	80,659
Other Financing Sources (Uses)				
Operating transfers – net	10,158	12,616	12,491	(125)
Total other financing sources (uses)	10,158	12,616	12,491	(125)
Net Change in Fund Balance	(225,329)	(36,875)	43,659	80,534
Fund Balance — Beginning of Year	2,732,478	2,732,478	2,671,386	(61,092)
Fund Balance — End of Year	\$ 2,507,149	\$ 2,695,603	\$ 2,715,045	\$ 19,442

Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

85

Inflows/revenues:	
Actual amounts (budgetary basis)	\$ 6,843,581
Differences – budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budgeted amounts	1,538,514
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	\$ 8,382,095
Outflows/expenditures:	
Actual amounts (budgetary basis)	\$ 6,812,413
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budgeted amounts	1,538,514
Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	\$ 8,350,927

Russellville Independent School District
Budgetary Comparison Schedule for the Special Revenue Fund

Year Ended June 30, 2012	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Local and intermediate sources	\$ 31,771	\$ 30,251	\$ 28,474	\$ (1,777)
State programs	414,677	488,590	483,567	(5,023)
Federal programs	946,683	997,677	1,489,323	491,646
Total revenues	1,393,131	1,516,518	2,001,364	484,846
Expenditures				
Current:				
Instruction	818,554	852,988	1,190,231	(337,243)
Support services:				
Student	111,940	111,594	175,357	(63,763)
Instructional staff	337,805	408,122	493,287	(85,165)
Plant operations and maintenance	200	1,073	1,029	44
Student transportation	-	13,241	13,245	(4)
Other	157,474	163,572	159,266	4,306
Total expenditures	1,425,973	1,550,590	2,032,415	(481,825)
Excess (Deficiency) of Revenues over Expenditures	(32,842)	(34,072)	(31,051)	3,021

Other Financing Sources (Uses)				
Operating transfers – net	32,842	34,072	28,729	(5,343)
Total other financing sources (uses)	32,842	34,072	28,729	(5,343)
Net Change in Fund Balance	-	-	(2,322)	(2,322)
Fund Balance – Beginning of Year	-	-	14,565	14,565
Fund Balance – End of Year	\$ -	\$ -	\$ 12,243	\$ 12,243

Supplementary Information

Russellville Independent School District
Combining Balance Sheet
Non-Major Governmental Funds

June 30, 2012	Construction Fund	SEEK Fund	FSPK Fund	Debt Service Fund	Total Other Governmental Funds
Assets					
Cash	\$ 65,304	\$ 12,986	\$ -	\$ -	\$ 78,290
Total Assets	\$ 65,304	\$ 12,986	\$ -	\$ -	\$ 78,290
Fund Balances					
Restricted	\$ 65,304	\$ 12,986	\$ -	\$ -	\$ 78,290
Total Fund Balances	\$ 65,304	\$ 12,986	\$ -	\$ -	\$ 78,290

Russellville Independent School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds

Year Ended June 30, 2012	Construction Fund	SEEK Fund	FSPK Fund	Debt Service Fund	Total Other Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ -	\$ -	\$ 268,958	\$ -	\$ 268,958
Intergovernmental – state	-	93,605	394,834	141,871	630,310
Total revenues	-	93,605	663,792	141,871	899,268
Expenditures					
Debt service:					
Principal	-	-	-	440,000	440,000
Interest	-	-	-	364,638	364,638
Building improvements	89,606	-	-	-	89,606
Total expenditures	89,606	-	-	804,638	894,244
Excess (Deficiency) of Revenues over Expenditures	(89,606)	93,605	663,792	(662,767)	5,024
Other Financing Sources (Uses)					
Operating transfers in	89,297	-	-	662,767	752,064
Operating transfers out	(7,653)	(80,619)	(663,792)	-	(752,064)
Total other financing sources (uses)	81,644	(80,619)	(663,792)	662,767	-
Net Change in Fund Balances	(7,962)	12,986	-	-	5,024
Fund Balances – Beginning	73,266	-	-	-	73,266
Fund Balances – Ending	\$ 65,304	\$ 12,986	\$ -	\$ -	\$ 78,290

Russellville Independent School District
Combining Statement of Net Assets
Non-Major Proprietary Funds

June 30, 2012	Community Education	Total Other Enterprise Funds
Assets		
Cash	\$ 3,383	\$ 3,383
Total Assets	\$ 3,383	\$ 3,383
Net Assets		
Unrestricted	\$ 3,383	\$ 3,383
Total Net Assets	\$ 3,383	\$ 3,383

Russellville Independent School District
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Non-Major Proprietary Funds

Year Ended June 30, 2012	Community Education	Total Other Enterprise Funds
Operating Revenues		
Tuition and fees	\$ 2,140	\$ 2,140
Total operating revenues	2,140	2,140
Operating Expenses		
Instruction	1,754	1,754
Total operating expenses	1,754	1,754
Operating income	386	386
Change in Net Assets	386	386
Net Assets – Beginning of Year	2,997	2,997
Net Assets – End of Year	\$ 3,383	\$ 3,383

Russellville Independent School District
Combining Statement of Cash Flows
Non-Major Proprietary Funds

Year Ended June 30, 2012	Community Education	Total Other Enterprise Funds
Cash Flows from Operating Activities		
Cash received from user charges	\$ 2,140	\$ 2,140
Cash payments for other operating expenses	(1,754)	(1,754)
Net cash provided by operating activities	386	386
Net Increase in Cash	386	386
Cash – Beginning of Year	2,997	2,997
Cash – End of Year	\$ 3,383	\$ 3,383

Russellville Independent School District
Combining Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2012	Mary Hope Henry Music Scholarship Trust Fund	Other Scholarship Trust Funds	Total Private Purpose Trust Funds
Assets			
Cash	\$ -	\$ 41,109	\$ 41,109
Investments	411,136	-	411,136
Total Assets	\$ 411,136	\$ 41,109	\$ 452,245
Net Assets			
Held in trust for scholarships	\$ 411,136	\$ 41,109	\$ 452,245
Total Net Assets	\$ 411,136	\$ 41,109	\$ 452,245

Russellville Independent School District
Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year Ended June 30, 2012	Mary Hope Henry Music Scholarship Trust Fund	Other Scholarship Trust Funds	Total Private Purpose Trust Funds
Additions			
Earnings on investments	\$ 14,883	\$ 108	\$ 14,991
Unrealized gain on investments	12,847	-	12,847
Total additions	27,730	108	27,838
Deductions			
Scholarships	2,000	600	2,600
Administrative fees	984	-	984
Total deductions	2,984	600	3,584
Change in Net Assets	24,746	(492)	24,254
Net Assets – Beginning of Year	386,390	41,601	427,991
Net Assets – End of Year	\$ 411,136	\$ 41,109	\$ 452,245

Russellville Independent School District
Combining Statement of Assets and Liabilities
All School Activity Funds
All Agency Funds

Year Ended June 30, 2012	Cash July 1, 2011	Receipts	Disbursements	Cash June 30, 2012	Accounts Receivable	Accounts Payable	Due To Student Groups June 30, 2012
Russellville High School	\$ 41,500	\$ 285,652	\$ 292,479	\$ 34,673	\$ 969	\$ 5,598	\$ 30,044
Stevenson Elementary School	36,098	46,828	44,195	38,731	-	-	38,731
Total	\$ 77,598	\$ 332,480	\$ 336,674	\$ 73,404	\$ 969	\$ 5,598	\$ 68,775

Russellville Independent School District
Statement of Assets and Liabilities
School Activity Funds
Russellville High School

Year Ended June 30, 2012	Cash July 1, 2011	Receipts	Disbursements	Cash June 30, 2012	Accounts Receivable	Accounts Payable	Due To Student Groups June 30, 2012
Academic Team	\$ 28	\$ 340	\$ 18	\$ 350	\$ -	\$ -	\$ 350
Ambassador	-	300	25	275	-	-	275
Archery	1,721	25	872	874	-	-	874
Art Club	-	1,823	1,698	125	-	-	125
Art Grant	48	-	25	23	-	-	23
Athletics	4,635	110,974	107,856	7,753	-	1,794	5,959
Band	61	2,729	2,490	300	-	-	300
Baseball	1,490	9,573	10,164	899	110	-	1,009
Belinda SC Scholarship	-	2,520	2,520	-	-	-	-
Beta Club	569	9,935	10,083	421	-	-	421
Board of Education	-	13,493	13,493	-	-	-	-
Boys Basketball	515	13,095	12,683	927	-	240	687
Cheerleaders	1,364	6,549	7,104	809	-	667	142
Panther Dance Team	105	-	-	105	-	-	105
Drama	103	7,280	4,613	2,770	-	-	2,770
Fellowship of Christian Athletes	291	59	-	350	-	-	350
Material Fees	732	3,839	4,164	407	-	-	407
FCC Leaders of America	86	1,586	1,122	550	-	-	550
FMD	438	51	43	446	-	-	446
Football	2,308	16,121	17,563	866	-	333	533
General	1,559	6,711	7,801	469	-	38	431
Gifted/Talented	1,868	7,880	7,820	1,928	-	-	1,928
Girls Basketball	-	7,931	6,607	1,324	-	-	1,324

Golf	1,701	573	2,274	-	-	-	-
Guidance	25	3,623	3,367	281	-	-	281
Jr. ACA	1,966	1,071	747	2,290	-	-	2,290
Jr. Beta	1,305	1,170	2,018	457	-	-	457
Jr. Boys Basketball	487	385	223	649	-	-	649
Jr. Cheerleaders	3,708	9,253	11,411	1,550	859	2,204	205
Jr. Football	1,299	-	546	753	-	-	753
Jr. Girls Basketball	201	1,244	1,185	260	-	-	260
Jr. Volleyball	983	955	718	1,220	-	-	1,220
The Learning Academy	3	-	-	3	-	-	3
Library	774	-	701	73	-	-	73
National Honor Society	236	430	542	124	-	-	124
Outdoorsman Club	-	318	318	-	-	-	-
Panthers R Us	-	11,957	11,640	317	-	-	317
Pep Club	246	648	722	172	-	-	172
Positive Panther Peers	60	-	60	-	-	-	-
Stem	366	587	953	-	-	-	-
Senior Class	493	8,709	9,200	2	-	-	2
Shakespearean Festival	12	-	-	12	-	-	12
Soccer	2,999	471	2,752	718	-	-	718
Softball	19	4,895	4,660	254	-	254	-
Spanish Club	152	2,504	1,950	706	-	-	706
Swim Team	654	842	796	700	-	-	700
Teacher Lounge	437	1,077	1,100	414	-	-	414
RHS Tennis	1,445	1,402	2,101	746	-	-	746
Greenhouse	155	72	179	48	-	-	48
G/B Track	134	1,150	776	508	-	-	508
Volleyball	1,406	3,222	4,564	64	-	-	64
Yearbook	2,263	5,010	7,071	202	-	-	202
Youth Service Center	50	1,270	1,141	179	-	68	111
	\$ 41,500	\$ 285,652	\$ 292,479	\$ 34,673	\$ 969	\$ 5,598	\$ 30,044

Russellville Independent School District

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Child Nutrition Cluster			
Passed-Through State Department of Agriculture:			
Food Distribution Program – noncash	10.555	057502	\$ 38,880
Passed-Through State Department of Education:			
School Breakfast Program	10.553	7760005 11	145,032
National School Lunch Program	10.555	7750002 11	315,841
Total U.S. Department of Agriculture			499,753
U.S. Department of Energy			
Passed-Through Green River Region Educational Cooperative:			
ARRA – “SEMP” School Energy Managers Project	81.041	5692	1,030
Total U.S. Department of Energy			1,030
U.S. Department of Education			
Impact Aid	84.041	—	13,080
Passed-Through State Department of Education:			
Title I, Part A Cluster			
Title I to Local Educational Agencies – 2011	84.010	3100002 10	180,553
Title I to Local Educational Agencies – 2012	84.010	3100002 11	367,239
ARRA – Title I Part A – 2009	84.389	4100002 09	4,523
Title I School Improvement Funds – 2010	84.010	3100202 09	59,841
Title I School Improvement Funds – 2011	84.010	3100202 10	61,569
Subtotal			673,725
Special Education Cluster			
Special Education – 2011	84.027	3810002 10	82,672
Special Education – 2012	84.027	3810002 11	201,191
Special Education – Preschool – 2011	84.173	3800002 10	1,018
Special Education – Preschool – 2012	84.173	3800002 11	34,554
Subtotal			319,435
English Language Acquisition Grants	84.365	3300002 10	1,452
English Language Acquisition Grants	84.365	3300002 11	16,933
Subtotal			18,385

Year Ended June 30, 2012

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Vocational Education – 2010	84.048	4621032 09	178
Vocational Education – 2011	84.048	4621132 10	345
Vocational Education – 2012	84.048	4621232 11	7,968
Subtotal			8,491
Rural Education Achievement – 2010	84.358	3140002 09	9,468
Rural Education Achievement – 2011	84.358	3140002 10	1,371
Rural Education Achievement – 2012	84.358	3140002 11	22,515
Subtotal			33,354
Improving Teacher Quality – 2011	84.367	3230002 10	2,175
Improving Teacher Quality – 2012	84.367	3230002 11	58,957
Subtotal			61,132
ARRA Educational Jobs	84.410	EJOB00 10	249,650
ARRA – School Improvement G Grant YR 1	84.388A	4100302 09	22,180
ARRA – School Improvement G Grant LEAs YR 2	84.388A	4100302 09	51,635
Subtotal			73,815
Passed-Through Logan County Board of Education:			
Migrant Education – 2011	84.011	3111	2,468
Migrant Education – 2012	84.011	3112	47,072
Subtotal			49,540
Passed-Through State Workforce Cabinet:			
Community Based Work Transition	84.002	0000	7,750
Total U.S. Department of Education			1,508,357
U.S. Department of Health and Human Services			
Passed-Through Barren River Area Development District:			
Family Caregiver Support Group	93.958	6902	766
Total U.S. Department of Health and Human Services			766
Total Expenditures of Federal Awards			\$ 2,009,906

See accompanying notes to the schedule of expenditures of federal awards.

Russellville Independent School District
Notes to the Schedule of Expenditures of Federal Awards

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Russellville Independent School District (the "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 Office of Management and Budget (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 the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

Note 2: Summary of Significant Accounting Policies

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

Nonmonetary assistance is reported in the schedule of fair value of the goods received.

Note 3: Subrecipients

There were no subrecipients during the fiscal year.

Russellville Independent School District
Summary Schedule of Prior Year Audit Findings

None



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**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Russellville Independent School District as of and for the year ended June 30, 2012, which collectively comprise Russellville Independent School District's basic financial statements and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, Appendix III of the *Independent Auditors' Contract—Audit Extension Request and Appendix IV of the Independent Auditors' Contract—Instructions for Submission of the Audit Report*.

• Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an

opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

- **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the District in a separate letter dated October 26, 2012.

This report is intended solely for the information and use of the members of the Russellville Independent Board of Education, Kentucky State Committee for School District Audits, management, 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.

Carr, Riggs & Ingram, L.L.C.



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Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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

● Compliance

We have audited Russellville Independent School District's (the "District") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditors' 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 the District's management. Our responsibility is to express an opinion on the 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, *Audits of States, Local Governments and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, Appendix III of the *Independent Auditors' Contract—Audit Extension Request* and Appendix IV of the *Independent Auditors' Contract—Instructions for Submission of the Audit*

Report. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

- **Internal Control over Compliance**

The management of the 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 the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 the 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.

This report is intended solely for the information and use of the members of the Russellville Independent Board of Education, Kentucky State Committee for School District Audits, management, 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.

Carr, Riggs & Ingram, L.L.C.

Section I — Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditors' 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? Yes No

**Russellville Independent School District
Schedule of Findings and Questioned Costs (Continued)**

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010 / 84.389	Title I, Part A Cluster
84.410	Educational Jobs

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

Auditee qualified as low-risk auditee? Yes No

Section II — Financial Statement Findings

None reported.

Section III — Federal Award Findings and Questioned Costs

None reported.



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Management Letter

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

In planning and performing our audit of the financial statements of Russellville Independent School District (the "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 matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated October 26, 2012 contains our report on the District's internal control. This letter does not affect our report dated October 26, 2012 on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed the comments and recommendations with various District personnel, and 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.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
October 26, 2012

Current Year and Prior Year Comments

• Russellville High School

- During our procedures over receipts, we noted on various occasions that deposit slips were not counted and initialed by two individuals. We recommend all deposits be counted by two people and contain dual initials as required.
- During our procedures over ticket sales, we noted ticket sales reports were not properly signed by all individuals. We recommend all appropriate personnel sign the ticket sales report as required.

Current Year Comments

• Central Office

- During our procedures over school food inventory, we noted that inventory was not properly counted. During our observation at the elementary school, we noted 10 out of 14 items selected did not agree to the District's count sheets. At the high school, we noted 8 out of our 13 items selected did not agree to the District's count sheets. We recommend controls be put in place at year end to ensure an accurate inventory count. We also noted in our procedures over inventory that the high school's count sheets were not mathematically correct. We recommend count sheets be checked for accuracy.

• Russellville High School

- During our procedures over disbursements, we noted that purchase orders were not being completed prior to a purchase. The purchase orders are being prepared upon payment of the invoice. We recommend prior to a purchase being made, a purchase requisition be completed and signed by the person requesting the order and the purchase order should then be signed by the principal thereby noting approval.

RUSSELLVILLE INDEPENDENT SCHOOLS

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Leon Smith
Superintendent

James C. Milam
Board Chairman

October 29, 2012

Attached are the responses to the comments and recommendations:

RHS

- The new Principal & new Central Fund Treasurer have developed procedures to make sure all deposits are counted and initialed by two individuals. The Principal subsequently reviews the deposit slips for initials.
- Proper procedures have been reviewed with all coaches and ticket takers. A review of the reconciliations will be performed as the reconciliations are turned into the Principal's office. Incomplete reconciliations will be returned to the coach or ticket taker to be properly completed.

Central Office

- Procedures will be devised to ensure accurate calculations. The figures will be recalculated for accuracy at the Central Office level. More emphasis will be placed on the accuracy of the inventory counts at year end. Better organization of the freezers will be required.

RHS

- The new Principal & new Central Fund Treasurer have developed procedures to ensure a purchase order has been approved prior to the ordering of the product, supplies or services. They have reviewed the proper procedures with teachers and staff.

Sincerely

Leon Smith
Superintendent

Mark Coursey
Finance Director

"Every Child, Every Day"

The Russellville Independent Board of Education does not discriminate on the basis of age, color, disability, parental status, marital status, race, genetic information, national origin, religion, sex, or veteran status in the programs, activities, and services it provides, as required by law.