

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

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**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
JUNE 30, 2015**

BOARD OF EDUCATION

Earl Menser, Chairman
Vicki Allen, Vice Chairman
Tracy Overby, Member
Lindsey Morgan, Member
Melissa Knight, Member

ADMINISTRATIVE STAFF

Leonard Whalen – Superintendent
Jennifer A. Bruce – Treasurer and Secretary

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
WALTER G. CUMMINGS, CPA



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Dawson Springs Independent School District (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Dawson Springs Independent School District as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 16 to the financial statements, in fiscal year 2015, the District adopted GASB 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB 50, *Pension Disclosures*. Our opinion is not modified with respect to this manner.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 4–12, 53-55, and 56-60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual nonmajor fund financial statements, combining and individual school activity fund financial statements, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting

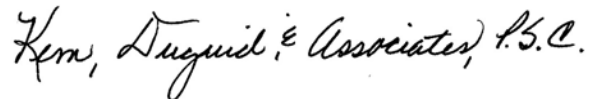
and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, combining and individual school activity fund financial statements, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Dawson Springs Independent School District's internal control over financial reporting and compliance.

Kem, Duguid & Associates, P.S.C.

A handwritten signature in cursive script that reads "Kem, Duguid & Associates, P.S.C.".

Certified Public Accountants
Hopkinsville, Kentucky

November 12, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

As management of the Dawson Springs 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, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$1,322,245, as compared with the beginning cash balance of \$1,175,058. The ending cash balance consisted of General Fund of \$1,103,919, Special Revenue Fund of (\$10,207), Food Service Fund of \$136,771, and School Activity Funds of \$91,762.
- The General Fund had \$4,937,928 in revenues, which primarily consisted of the state program (SEEK) funds, property, utilities, and motor vehicle taxes, and on-behalf payments for fringe benefits from the Commonwealth of Kentucky. General Fund revenues increased in comparison to prior year revenues of \$4,623,822. Excluding interfund transfers, there was \$4,880,743 in General Fund expenditures. This compares to \$4,924,951 in General Fund expenditures for the prior year.
- The financial statements reflect a total of \$1,291,550 of revenues and aid from the state for payments made by the state on-behalf of district employees for retirement contributions, health insurance, debt service, and technology. A like amount of expenses is also recorded in the financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements – The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all the District’s assets and deferred outflows of resources and liabilities and deferred inflows. All of the current year’s revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

The two government-wide statements report the District’s net position and how it has changed. Net position – the difference between the District’s assets and deferred outflows, and liabilities and deferred inflows – is one way to measure the District’s financial health or position.

- Over time, increases or decreases in the District’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, the reader needs to consider additional non-financial factors such as changes in the District’s property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, all the District’s activities are reported as governmental activities.

- Governmental activities – All of the District’s basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of the activities.

The fund financial statements provide more detailed information about the District’s *funds*, focusing on its most significant or “major” funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like federal grants).

The District has three kinds of funds:

- *Governmental funds* – Most of the District’s basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, the District provides additional information with the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary funds* – The District’s proprietary fund is food service. The proprietary fund statements are the same as the business-type activities in the government-wide statements, but provide more detail and additional information, such as cash flows.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

- *Fiduciary funds* – The District is fiduciary for assets that belong to others and is responsible for ensuring that assets reported in the fiduciary funds are used only for their intended purposes. The District’s fiduciary funds consist of student activities funds. These funds are excluded from the government-wide financial statements because the assets cannot be used to finance the operations of the District.

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.

Other information – In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information, as well as combining and individual fund statements and schedules beginning on page 61.

GOVERNMENT WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$3,519,947 as of June 30, 2015.

A significant portion of the District’s net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, and 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, 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.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

Following is a summary of the District's government-wide net position for the fiscal years ended June 30, 2015 and 2014:

Net Position for June 30, 2015 and 2014

	Governmental Activities		Business-type Activities		District Total	
	2015	2014	2015	2014	2015	2014
Current assets						
and other assets	\$ 1,171,004	\$ 1,058,842	\$ 152,378	\$ 158,093	\$ 1,323,382	\$ 1,216,935
Capital assets	7,584,537	7,987,945	66,882	59,521	7,651,419	8,047,466
Total assets	8,755,541	9,046,787	219,260	217,614	8,974,801	9,264,401
Deferred outflow	265,878	62,341	33,216	-	299,094	62,341
Current liabilities	79,777	126,148	-	-	79,777	126,148
Noncurrent obligations	5,298,482	4,555,530	274,889	-	5,573,371	4,555,530
Total liabilities	5,378,259	4,681,678	274,889	-	5,653,148	4,681,678
Deferred inflow	76,890	-	23,910	-	100,800	-
Net position						
Investment in capital assets, net of related debt	3,311,303	3,508,628	66,882	59,521	3,378,185	3,568,149
Restricted	-	57,030	-	-	-	57,030
Unrestricted	254,967	861,792	(113,205)	158,093	141,762	1,019,885
Total net position	\$ 3,566,270	\$ 4,427,450	\$ (46,323)	\$ 217,614	\$ 3,519,947	\$ 4,645,064

Change in net position. The District's governmental activities net position decreased by \$861,180. The components of the net change are a current increase of \$28,245 and a prior period adjustment of (\$889,425) for the implementation of GASB 68. The business-type activities net position decreased by \$263,937. The components of net change are a current year increase of \$12,638 and a prior period adjustment of (\$276,575) for the implementation of GASB 68.

The Kentucky School Facilities Construction Commission (SFCC) makes direct payments of principal and interest on District bonds issued for construction of facilities. The bonds payable are included in the long-term obligations of the District, and the payments are recorded as revenue from the State. The result is an increase in net position from the direct payment of principal and interest by the SFCC of \$189,675. Another increase is the expenditure of current revenues on capital assets, an expenditure that does not reduce net position on the government-wide statements.

The District's financial position is the product of many factors. For example, the determination of the District's investment in capital assets, net of related debt involves many assumptions and estimates, such as current and accumulated depreciation amounts. Changes in variables such as estimated depreciable lives or capitalization policies may produce significant differences in the calculated amounts.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

Following is a summary of schedule of changes in the District's net position for the years ended June 30, 2015 and 2014:

Changes in Net Position for the Fiscal Years Ended June 30, 2015 and 2014

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Operating grants and contributions	\$ 1,659,888	\$ 4,888,452	\$ 356,125	\$ 332,260	\$ 2,016,013	\$ 5,220,712
Capital grants and contributions	189,765	264,443	-	-	189,765	264,443
Charges for services	-	-	43,686	52,556	43,686	52,556
General revenues:						
Property taxes	424,020	365,008	-	-	424,020	365,008
Other taxes	225,393	212,865	-	-	225,393	212,865
Investment earnings	230	296	25	22	255	318
State aid	3,534,654	11,073	83,593	81,220	3,618,247	92,293.00
Other	68,788	119,072	(942)	-	67,846	119,072
Total revenues	<u>6,102,738</u>	<u>5,861,209</u>	<u>482,487</u>	<u>466,058</u>	<u>6,585,225</u>	<u>6,327,267</u>
Expenses:						
Instruction	3,799,475	3,753,196	-	-	3,799,475	3,753,196
Student support services:	199,634	201,316	-	-	199,634	201,316
Instructional support	106,597	157,963	-	-	106,597	157,963
District administration	307,573	284,463	-	-	307,573	284,463
School administration	371,357	324,714	-	-	371,357	324,714
Business support	114,418	107,555	-	-	114,418	107,555
Plant operations	599,876	537,983	-	-	599,876	537,983
Student transportation	137,252	186,287	-	-	137,252	186,287
Community services	171,468	175,516	-	-	171,468	175,516
Interest on long-term debt	229,725	435,416	-	-	229,725	435,416
Bond issuance costs	37,118	37,640	-	-	37,118	37,640
Food service	-	-	469,849	445,833	469,849	445,833
Total expenses	<u>6,074,493</u>	<u>6,202,049</u>	<u>469,849</u>	<u>445,833</u>	<u>6,544,342</u>	<u>6,647,882</u>
Increase (Decrease) in net position	<u>\$ 28,245</u>	<u>\$ (340,840)</u>	<u>\$ 12,638</u>	<u>\$ 20,225</u>	<u>\$ 40,883</u>	<u>\$ (320,615)</u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT’S GOVERNMENTAL FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District’s governmental funds reported combined ending fund balances of \$1,119,559, an increase of \$99,547 in comparison with the prior year. The following schedule indicates the fund balances and the total changes in fund balances by major fund and other governmental (nonmajor) funds as reported in the basic financial statements for the fiscal years ended June 30, 2015 and 2014.

The main sources of the General Fund’s revenues are state aid in the form of SEEK allocations and locally assessed taxes. The majority of the District’s activities are accounted for in the General Fund. The Special Revenue Fund consists of grant revenues, mostly state funds and federal funds administered through the state and expenditures of those grants for specific programs in accordance with the grants’ guidelines.

The SEEK Capital Outlay Fund’s revenues are derived from state SEEK allowances based upon student enrollment. The FSPK Building Fund’s revenues are produced by a five-cent property tax equivalent. The use of both funds’ resources is generally restricted to facilities acquisition or improvement and payment of the related debt on facilities. The Construction Fund is used to account for facility construction and improvement projects funded by other funds or borrowing.

The Debt Service Fund is used to account for all activities related to long-term bond obligations.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

Following is a summary of fund balances for the fiscal years ended June 30, 2015 and 2014:

Governmental Funds Balances as of June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Governmental Funds			
General Fund	\$ 1,119,559	\$ 962,982	\$ 156,577
Special Revenue Fund	-	-	-
Building Fund	-	13,548	(13,548)
Capital Outlay	-	43,482	(43,482)
Debt Service Fund	-	-	-
Total governmental funds	<u>\$ 1,119,559</u>	<u>\$ 1,020,012</u>	<u>\$ 99,547</u>

General Fund – The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$1,098,584, while total fund balance reached \$1,119,559. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 22.51% of total General Fund expenditures, while total fund balance represents 22.94% of that same amount.

During the current fiscal year, the total fund balance of the General Fund increased by \$156,577. Revenues and transfers totaling \$5,046,482 increased by \$419,525, while expenditures and transfers totaling \$4,889,905 decreased by \$44,924.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with directives from the Kentucky Department of Education (DOE) and Kentucky law, the District’s funds 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 and any amounts being accumulated for other purposes ultimately shown as unspent or over-budgeted expenditures. By law, the budget must have a minimum 2% contingency. The District adopted a General Fund budget with a contingency of (\$377,822) or 3.3%. Over the course of the year, the District revises the annual operating budget as circumstances dictate or as required by DOE.

As noted on the Budgetary Comparison Schedule for the General Fund contained in the Required Supplementary Information, the General Fund budget did not include \$1,022,360 of state payments on-behalf of District employees for retirement and health benefits. These payments are reflected in the GAAP basis actual amounts as state program revenues and in each type of expenditure in relation to wages paid, with the major portion contained in instructional expenditures. Local revenues are budgeted conservatively resulting in a favorable variance of local revenues for the year.

- The District’s total revenues for General Fund activities for the fiscal year ended June 30, 2015, excluding interfund transfers, beginning balances, and on-behalf payments, were \$3,915,568; compared to the total budgeted revenues of \$3,706,299.
- The District’s total expenditures for General Fund activities for the fiscal year ended June 30, 2015, excluding interfund transfers and on-behalf payments, were \$3,858,383; compared to the total budgeted expenditures of \$4,654,276.
- The fund balance at the end of the 2015 fiscal year for all Governmental Funds was \$1,020,012 compared to \$1,119,559 in the prior year.

Significant Board action that impacts the District’s finances includes the award of multiple contracts and salary increases mandated by the Legislature.

Fund 2 is made up of state, local, and federal grants. These grants include Title I, No Child Left Behind Funding, Preschool, Special Education funding, and others. These funds have restricted use, according to the guidelines for each. Expenses include salaries and benefits, supplies, and transportation.

Funds 310 and 320 are restricted funds for capital projects. The State contributes to Fund 310.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At June 30, 2015, the District had \$7,651,419 invested in capital assets net of depreciation: historical costs totaled \$13,842,001 with accumulated depreciation totaling \$6,190,582. These assets include school, athletic, and support facilities, as well as technology, food service, and other equipment. Expenditures for acquisitions and improvements during the year totaled \$78,083. Depreciation charged to expense during the year totaled \$473,937, the majority of which was charged to governmental functions. More detailed information relating to capital assets may be found in Note 3 to the financial statements.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2015 and 2014.

Net Capital Assets for the Fiscal Years Ended June 30, 2015 and 2014

	Governmental Activities		Business-type Activities		District Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 495,114	\$ 495,114	\$ -	\$ -	\$ 495,114	\$ 495,114
Land improvements	125,001	155,992	-	-	125,001	155,992
Building and improvements	6,610,432	6,896,541	1,066	1,147	6,611,498	6,897,688
Technology equipment	222,259	311,873	2,748	620	225,007	312,493
General equipment	56,994	70,566	-	-	56,994	70,566
Vehicles	74,737	57,859	-	-	74,737	57,859
Food service equipment	-	-	63,068	57,753	63,068	57,753
Total	<u>\$ 7,584,537</u>	<u>\$ 7,987,945</u>	<u>\$ 66,882</u>	<u>\$ 59,520</u>	<u>\$ 7,651,419</u>	<u>\$ 8,047,465</u>

Long-Term Debt – The District’s long-term general obligation bonds outstanding at June 30, 2015 were \$4,279,349. Of that amount, the Kentucky SFCC has agreed to make a portion of the principal and interest payment under agreements previously described. Though the District is liable for the full amount of the bonds and the full amount is recorded on the financial statements, the SFCC has agreed to pay \$1,943,842 of the bonds leaving the District to pay \$2,335,507. The liability for compensated absences remained steady for the fiscal year. Other long-term obligations, mostly leases on buses, will decrease as the leases are paid down. Long term debt also includes the Annexation Note Payable in the amount of \$44,349.

The State must approve the issuance of any new bonds of the District.

More detailed information about the District’s long-term liabilities may be found in Note 4 to the financial statements.

OUTLOOK FOR THE FUTURE

The most crucial aspect in the financial future of the District is continued adequate funding from the state. The District’s major source of revenue is state aid, primarily Kentucky SEEK funding.

The District’s financial position is contingent upon legislation and factors related to property taxation in conjunction with decisions made by the District’s Board management. The District remains committed to utilizing resources to provide the maximum benefit to students and provide them with a quality education. This involves closely monitoring legislation and seeking new sources of revenues through grant writing, etc.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District’s finances, comply with finance-related laws and regulations, and demonstrate the District’s commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the Superintendent or District finance personnel (270) 797-3811 ext. 5002 or by mail at 118 East Arcadia Avenue, Dawson Springs, KY 42408.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,103,919	\$ 136,771	\$ 1,240,690
Accounts receivable:			
Taxes	15,640	-	15,640
Intergovernmental - indirect federal	51,445	-	51,445
Inventory	-	15,607	15,607
Capital assets:			
Non-depreciable	495,114	-	495,114
Depreciable (net)	7,089,423	66,882	7,156,305
Total assets	8,755,541	219,260	8,974,801
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension amounts	106,816	33,216	140,032
Deferred amount on debt refundings	159,062	-	159,062
Total deferred outflows of resources	265,878	33,216	299,094
LIABILITIES			
Cash overdraft	10,207	-	10,207
Unearned revenue	41,238	-	41,238
Interest payable	28,332	-	28,332
Long-term obligations:			
Portion due or payable within one year:			
Bonds payable	301,387	-	301,387
Capital lease obligations	15,777	-	15,777
Note payable	11,406	-	11,406
Portion due or payable after one year:			
Bonds payable	3,923,374	-	3,923,374
Capital lease obligations	32,696	-	32,696
Note payable	32,943	-	32,943
Compensated absences	98,950	638	99,588
Net pension liability	881,949	274,251	1,156,200
Total liabilities	5,378,259	274,889	5,653,148
DEFERRED INFLOWS OF RESOURCES			
Deferred pension amounts	76,890	23,910	100,800
Total deferred inflows of resources	76,890	23,910	100,800
NET POSITION			
Invested in capital assets, net of related debt	3,311,303	66,882	3,378,185
Unrestricted	254,967	(113,205)	141,762
Total net position	\$ 3,566,270	\$ (46,323)	\$ 3,519,947

See accompanying notes to financial statements

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	
Governmental Activities:					
Current:					
Instruction	\$ 3,799,475	\$ -	\$ 1,358,112	\$ -	\$ (2,441,363)
Support services:					
Student	199,634	-	7,220	-	(192,414)
Instructional staff	106,597	-	36,953	-	(69,644)
District administration	307,573	-	56,934	-	(250,639)
School administration	371,357	-	57,481	-	(313,876)
Business	114,418	-	8,785	-	(105,633)
Plant operation and maintenance	572,889	-	34,532	-	(538,357)
Student transportation	137,252	-	25,756	-	(111,496)
Community service activities	171,468	-	74,115	-	(97,353)
Building acquisition and construction	26,987	-	-	-	(26,987)
Interest on long-term debt	229,725	-	-	189,765	(39,960)
Bond issuance costs	37,118	-	-	-	(37,118)
Total governmental activities	6,074,493	-	1,659,888	189,765	(4,224,840)
Business-Type Activities:					
Food service	469,849	43,686	356,125	-	(70,038)
Total business-type activities	469,849	43,686	356,125	-	(70,038)
Total activities	\$ 6,544,342	\$ 43,686	\$ 2,016,013	189,765	\$ (4,294,878)
			Governmental Activities	Business-Type Activities	Total
Changes in Net Position					
Net revenues (expenses)			\$ (4,224,840)	\$ (70,038)	\$ (4,294,878)
General Revenues					
Taxes:					
Property			424,020	-	424,020
Motor vehicle			78,026	-	78,026
Utilities			136,310	-	136,310
Other			11,057	-	11,057
Investment earnings			230	25	255
State aid			3,534,654	83,593	3,618,247
Gain (loss) on sale of fixed assets			43,092	(942)	42,150
Miscellaneous			25,696	-	25,696
Total general revenues			4,253,085	82,676	4,335,761
Change in net position			28,245	12,638	40,883
Net position, July 1, 2014			4,427,450	217,614	4,645,064
Implementation of GASB 68 (Note 16)			(889,425)	(276,575)	(1,166,000)
Net position, July 1, 2014, restated			3,538,025	(58,961)	3,479,064
Net position, June 30, 2015			\$ 3,566,270	\$ (46,323)	\$ 3,519,947

See accompanying notes to financial statements

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	General Fund	Special Revenue	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,103,919	\$ -	\$ -	\$ -	\$ 1,103,919
Accounts receivable:					
Taxes	15,640	-	-	-	15,640
Intergovernmental - indirect federal	-	51,445	-	-	51,445
Total assets	<u>\$ 1,119,559</u>	<u>\$ 51,445</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,171,004</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Cash overdraft	\$ -	\$ 10,207	\$ -	\$ -	\$ 10,207
Unearned revenue	-	41,238	-	-	41,238
Total liabilities	<u>-</u>	<u>51,445</u>	<u>-</u>	<u>-</u>	<u>51,445</u>
Fund balances					
Nonspendable	-	-	-	-	-
Spendable:					
Restricted	-	-	-	-	-
Committed	19,210	-	-	-	19,210
Assigned	1,765	-	-	-	1,765
Unassigned	1,098,584	-	-	-	1,098,584
Total fund balances	<u>1,119,559</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,119,559</u>
Total liabilities and fund balances	<u>\$ 1,119,559</u>	<u>\$ 51,445</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,171,004</u>

See accompanying notes to financial statements

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total fund balance per fund financial statements		\$ 1,119,559
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$13,622,616 and the accumulated depreciation is \$6,038,079.		
		7,584,537
Governmental funds record losses on debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are included on the government-wide financial statements as a deferred outflow of resources		
		159,062
Pension related items		
Deferred outflow		106,816
Deferred inflow		(76,890)
Net pension liability		(881,949)
Long-term liabilities, including interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:		
Bond obligations	(4,224,761)	
Lease obligations	(48,473)	
Note payable	(44,349)	
Interest payable on bonds	(28,332)	
Noncurrent portion of accumulated sick leave	(98,950)	(4,444,865)
Net position for governmental activities		<u>\$ 3,566,270</u>

See accompanying notes to financial statements

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Special Revenue	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
From local sources:					
Taxes					
Property	\$ 389,479	\$ -	\$ -	\$ 34,541	\$ 424,020
Motor vehicle	78,026	-	-	-	78,026
Utilities	136,310	-	-	-	136,310
Other	11,057	-	-	-	11,057
Earnings on investments	230	-	-	-	230
Other local revenues	15,227	10,469	-	-	25,696
Intergovernmental - state	4,307,599	253,731	189,765	249,415	5,000,510
Intergovernmental - federal	-	383,797	-	-	383,797
Total revenues	4,937,928	647,997	189,765	283,956	6,059,646
EXPENDITURES					
Current:					
Instruction	2,992,082	534,945	-	-	3,527,027
Support services:					
Student	175,875	-	-	-	175,875
Instructional staff	77,202	30,649	-	-	107,851
District administration	292,860	-	-	-	292,860
School administration	386,941	-	-	-	386,941
Business	104,453	9,055	-	-	113,508
Plant operations and maintenance	493,607	-	-	47,187	540,794
Student transportation	139,680	6,113	-	-	145,793
Community service activities	52,111	76,397	-	-	128,508
Building acquisition and construction	-	-	-	26,987	26,987
Debt service	165,932	-	1,778,846	-	1,944,778
Total expenditures	4,880,743	657,159	1,778,846	74,174	7,390,922
Excess (deficit) of revenues over (under) expenditures	57,185	(9,162)	(1,589,081)	209,782	(1,331,276)
Other financing sources (uses)					
Proceeds from disposal of fixed assets	42,341	-	-	-	42,341
Net bond proceeds	-	-	1,388,482	-	1,388,482
Operating transfers in	66,213	9,162	200,599	-	275,974
Operating transfers out	(9,162)	-	-	(266,812)	(275,974)
Total other financing sources (uses)	99,392	9,162	1,589,081	(266,812)	1,430,823
Net changes in fund balances	156,577	-	-	(57,030)	99,547
Fund balances, July 1, 2014	962,982	-	-	57,030	1,020,012
Fund balances, June 30, 2015	\$ 1,119,559	\$ -	\$ -	-	\$ 1,119,559

See accompanying notes to financial statements

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Net change in fund balance - Total governmental funds \$ 99,547

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expenses exceeded capital outlay in the current period:

Capital outlay	\$ 60,731	
Depreciation expense	(464,890)	
Net capital outlay	(404,159)	(404,159)

In the statement activities, only the gain (loss) on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the remaining book value of the asset sold.

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Bond proceeds are reported as other financing sources in governmental funds and contribute to the change in fund balance. However, in the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of bond principal is an expenditure in the government funds financial statements but is a reduction of the liability in the statement of net position.

Bond proceeds	(1,388,482)	
Bond issue costs	(37,118)	
Gain/loss on refunding	103,887	
Note repayments	11,406	
Bond repayments	1,585,000	
KISTA lease payments	16,582	291,275

Some items reported in the statement of activities do not involve current financial resources and, therefore, are not reported as expenditures in the governmental funds.

These activities are:

Deferred pension amounts	37,402	
Accumulated sick leave-noncurrent portion	(22,737)	
Amortization of bond discount/premium	(25,654)	
Amortization of gain/loss on debt refunding	(7,166)	
Accrued interest on bonds	58,986	
Net decrease in expenditures		40,831

Change in net position of governmental activities	\$ 28,245
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See accompanying notes to financial statements

PROPRIETARY FUND FINANCIAL STATEMENTS

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015

	School Food Service Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 136,771
Inventory	15,607
	<hr/>
Total current assets	152,378
	<hr/>
Noncurrent assets	
Capital assets	219,386
Less: accumulated depreciation	(152,504)
	<hr/>
Total noncurrent assets	66,882
	<hr/>
Total assets	219,260
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension amounts	33,216
	<hr/>
Total deferred outflows of resources	33,216
	<hr/>
LIABILITIES	
Long-term liabilities	
Compensated absences	638
Net pension liability	274,251
	<hr/>
Total long-term liabilities	274,889
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
Deferred pension amounts	23,910
	<hr/>
Total deferred inflows of resources	23,910
	<hr/>
NET POSITION	
Invested in capital assets, net of related debt	66,882
Unrestricted	(113,205)
	<hr/>
Total net position	\$ (46,323)
	<hr/> <hr/>

See accompanying notes to financial statements

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	School Food Service Fund
OPERATING REVENUES	
Lunchroom sales	\$ 43,686
Total operating revenues	<u>43,686</u>
OPERATING EXPENSES	
Salaries and wages	230,535
Materials and supplies	227,851
Depreciation	9,047
Contract services	<u>2,416</u>
Total operating expenses	<u>469,849</u>
Operating income (loss)	<u>(426,163)</u>
NON-OPERATING REVENUES (EXPENSES)	
Federal grants	332,792
Donated commodities	23,333
State grants	4,169
State on-behalf payments	79,424
Loss on disposal of fixed assets	(942)
Interest income	<u>25</u>
Total non-operating revenues (expenses)	<u>438,801</u>
Change in net position	<u>12,638</u>
Net position, July 1, 2014	217,614
Implementation of GASB 68 (Note 16)	<u>(276,575)</u>
Net position, July 1, 2014, restated	(58,961)
Net position, June 30, 2015	<u><u>\$ (46,323)</u></u>

See accompanying notes to financial statements

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	School Food Service Fund
Cash flows from operating activities	
Cash received from:	
Lunchroom sales	\$ 43,686
Cash paid to/for:	
Employees	(162,101)
Supplies	(206,620)
Contract services	(2,416)
	<u>(327,451)</u>
Net cash provided (used) by operating activities	<u>(327,451)</u>
Cash flows from noncapital financing activities	
Government grants	<u>336,961</u>
Net cash provided (used) by noncapital financing activities	<u>336,961</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	<u>(17,352)</u>
Net cash provided (used) by capital and related financing activities	<u>(17,352)</u>
Cash flows from investing activities	
Receipt of interest income	<u>25</u>
Net cash provided (used) by investing activities	<u>25</u>
Net increase (decrease) in cash and cash equivalents	(7,817)
Balances, beginning of year	<u>144,588</u>
Balances, end of year	<u><u>\$ 136,771</u></u>

See accompanying notes to financial statements

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS, continued
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	School Food Service Fund
	<hr/>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (426,163)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	9,047
Donated commodities	23,333
State on-behalf payments	79,424
Change in assets and liabilities:	
Accounts receivable	-
Inventory	(2,102)
Deferred pension amounts	(11,628)
Compensated absences	638
	<hr/>
Net cash provided (used) by operating activities	<u><u>\$ (327,451)</u></u>
 Schedule of non-cash transactions:	
Donated commodities received from Federal government	\$ 23,333
On-behalf payments	79,424

See accompanying notes to financial statements

FIDUCIARY FUNDS FINANCIAL STATEMENTS

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 91,762
Total assets	<u>91,762</u>
LIABILITIES	
Due to student groups	<u>91,762</u>
Total liabilities	<u>91,762</u>
NET POSITION	<u><u>\$ -</u></u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the 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 District itself such as band boosters, parent-teacher associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. 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. On January 13, 1992, the Dawson Springs, Kentucky Board of Education resolved to authorize the establishment of the Dawson Springs Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act, KRS 273, and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Dawson Springs Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds. Interfund activity is eliminated to avoid "doubling up" revenues and expenses.

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.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The government-wide statement of net position presents the financial condition of the governmental and business-type activities of the District at year-end. 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 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 Statement

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

The Governmental Funds are accounted for on the "flow of current financial resources" measurement focus. This measurement focus is based on the concept of accountability, which includes measuring interperiod equity whether current year revenues were sufficient to pay for current year services. The Proprietary Funds are accounted for on an "economic resources" measurement focus. Accordingly, the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Funds reports increases and decreases in total economic net worth.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds.

Governmental Funds

Governmental Funds are those through which most District functions are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Fund and Fiduciary Funds) are accounted for through Governmental Funds. The measurement focus is upon determination of changes in financial resources rather than upon determination of net income. The following are the District's Governmental Funds:

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

The *Special Revenue Fund* accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes.

The *Special Revenue Fund* includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods, as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

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

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is generally restricted for use in financing projects identified in the District's facility plan.

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

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

The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of, bonded debt and lease obligations, interest and related costs. This is a major fund of the District.

Proprietary Funds

Proprietary funds are used to account for ongoing organizations and activities which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The funds' principal operating revenues are food service charges and daycare fees. Operating expenses include salaries, benefits, supplies and depreciation on capital assets. All items not meeting this definition are reported as nonoperating revenues and expenses. The District has one proprietary fund:

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA and for on-behalf payments for retirement and health insurance paid by the State of Kentucky. This is a major fund of the District.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the District on behalf of outside related organizations or on behalf of other funds within the District.

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

Basis of Accounting

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

Revenue Recognition

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. “Available” means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means expected to be received within 60 days after 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. On accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants entitlements and donations are 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 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 specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

Unearned Revenue

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

Donated Commodities

The fair value of donated commodities received during the year is reported in the proprietary fund statement of revenues, expenses and changes in net position as an expense and as a donated commodities revenue (nonoperating revenue).

Expenses/Expenditures

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. In the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Property taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. Property taxes are levied on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes become delinquent after December 31.

The property tax rates for the year ended June 30, 2015, to finance the General Fund operations were \$.679 per \$100 valuation for real property, \$.679 per \$100 valuation for business tangible personal property, and \$.687 per \$100 valuation for motor vehicles.

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

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Estimates

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

Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after nonoperating revenues/expenses in proprietary funds.

Encumbrances

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. An assignment of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2015. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

Assets, Liabilities and Equity

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and time deposits that are nonnegotiable, to be cash and cash equivalents, for governmental, proprietary and fiduciary funds. This definition is also used for the proprietary fund's statements of cash flows.

Prepaid Expenditures

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

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Inventories

Inventories are valued at cost, which approximates market. The food service fund uses the specific identification method and the general fund uses the first-in, first-out method. The District's inventories include various items consisting of school supplies, paper, books, maintenance items, transportation items, commodities, etc. USDA commodities received from the Federal government are recorded at the value established by the Federal government using the average cost method.

Restricted Assets

Certain assets of the General Fund are classified as restricted assets because their use is restricted by KRS 157.420(3).

Interfund Balances

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The district maintains a capitalization threshold of five thousand dollars (\$5,000) with the exception of real property for which there is no threshold. 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.

All reported capital assets except land and construction in progress 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:

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

<u>Description</u>	<u>Estimated Lives For Depreciation</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10-15 years

Accrued Liabilities and Long-Term Obligations

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

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

Debt Premium and Discounts

Unamortized premiums and discounts associated with bond issues are amortized over the lives of the related bonds using the straight-line method and are an addition (premium) or deduction (discount) to the debt balances in the government-wide statements.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Compensated Absences

Compensated absences are payments to employees for accumulated sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. District employees may accumulate unused sick leave up to a specified amount depending on their date of hire. Sick leave is payable to employees upon termination or retirement at 30% of the current rate of pay on the date of termination or retirement. The District uses the termination method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teacher's Retirement System of the State of Kentucky ("KTRS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category: the deferred outflows of resources relate to the net pension liability described in Note 9.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category: the deferred inflows of resources relate to the net pension liability as described in Note 9.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balances

In the fund financial statements, governmental fund balances as classified as follows:

Non-spendable – Includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

Restricted – Amounts which can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts which can be used only for specific purposes determined by the Board of Education's formal action through a resolution.

Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Board or Management. The board adopted a resolution establishing the authority to assign funds.

Unassigned – All amounts not included in other spendable classifications.

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed, assigned, and then unassigned fund balances.

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed, assigned, and then unassigned fund balances.

Net Position

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the district-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Subsequent Events

Subsequent events have been evaluated through November 12, 2015, which is the date the financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

The District maintained deposits of public funds with depository institutions insured by the FDIC as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institutions should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. As stipulated by KRS 41.240(4), all deposits are collateralized with eligible securities or other obligations having aggregate current face value or current quoted market value at least equal to the deposits. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4).

At fiscal year end, the carrying amount of the District's deposits was \$1,322,245 and the bank balance was \$1,408,053. Of the District's bank balance, \$250,000 was covered by Federal Deposit Insurance, with the remaining balance of \$1,158,053 collateralized as discussed above.

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

Governmental funds	\$ 1,093,712
Proprietary funds	136,771
Fiduciary funds	<u>91,762</u>
 Total	 <u><u>\$ 1,322,245</u></u>

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 – CAPITAL ASSETS

Capital Asset activity for the fiscal year ended June 30, 2015, was as follows:

Governmental Activities	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Capital assets not depreciated:				
Land	\$ 495,114	\$ -	\$ -	\$ 495,114
Total nondepreciable historical cost	<u>495,114</u>	<u>-</u>	<u>-</u>	<u>495,114</u>
Capital assets depreciated:				
Land improvements	565,916	-	-	565,916
Buildings and improvements	10,699,219	-	-	10,699,219
Technology equipment	1,065,550	32,731	10,912	1,087,369
General equipment	233,472	-	-	233,472
Vehicles	<u>513,526</u>	<u>28,000</u>	<u>-</u>	<u>541,526</u>
Total depreciable historical cost	<u>13,077,683</u>	<u>60,731</u>	<u>10,912</u>	<u>13,127,502</u>
Less: accumulated depreciation				
Land improvements	409,924	30,991	-	440,915
Building and improvements	3,802,678	286,109	-	4,088,787
Technology equipment	753,677	123,096	11,663	865,110
General equipment	161,306	15,172	-	176,478
Vehicles	<u>457,267</u>	<u>9,522</u>	<u>-</u>	<u>466,789</u>
Total accumulated depreciation	<u>5,584,852</u>	<u>464,890</u>	<u>11,663</u>	<u>6,038,079</u>
Total depreciable historical cost - net	<u>7,492,831</u>	<u>(404,159)</u>	<u>(751)</u>	<u>7,089,423</u>
Governmental activities capital assets - net	<u>\$ 7,987,945</u>	<u>\$ (404,159)</u>	<u>\$ (751)</u>	<u>\$ 7,584,537</u>

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 – CAPITAL ASSETS, continued

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities

Instruction	\$ 328,854
Support services:	
Student	23,759
Instructional staff	743
District administration	14,713
School administration	1,397
Business	910
Plant operation and maintenance	32,095
Student transportation	19,459
Community service	42,960
	<u>\$ 464,890</u>

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Business-Type Activities				
Capital assets depreciated:				
Buildings and improvements	\$ 2,010	\$ -	\$ -	\$ 2,010
Technology equipment	16,924	3,061	11,902	8,083
Food service equipment	200,651	14,291	5,650	209,292
	<u>219,585</u>	<u>17,352</u>	<u>17,552</u>	<u>219,385</u>
Total depreciable historical cost				
	219,585	17,352	17,552	219,385
Less: accumulated depreciation				
Buildings and improvements	864	80	-	944
Technology equipment	16,304	933	11,902	5,335
Food service equipment	142,897	8,034	4,707	146,224
	<u>160,065</u>	<u>9,047</u>	<u>16,609</u>	<u>152,503</u>
Total accumulated depreciation				
	160,065	9,047	16,609	152,503
Business-type activities capital assets - net	<u>\$ 59,520</u>	<u>\$ 8,305</u>	<u>\$ 943</u>	<u>\$ 66,882</u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 – LONG-TERM OBLIGATIONS

The District issues bonds to provide funds for the acquisition and construction of major capital facilities and improvements. The original amount of the issue, the dates and interest rates are summarized below:

<u>Issue</u>	<u>Proceeds</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Balance June 30, 2015</u>
Issue of 2006	\$ 2,235,000	2017	3.80% - 4.25%	\$ 215,000
Issue of 2014	2,750,000	2029	2.25%-6.40%	2,580,000
Issue of 2015	1,440,000	2026	2.00%	1,440,000

On May 1, 2015, the District issued \$1,440,000 in Revenue Refunding Bonds with an interest rate of 2.0%. The District issued the bonds to refund \$1,315,000 of outstanding 2006 Series bonds with interest rates of 3.80% - 4.25%. The net proceeds of \$1,393,043 (after payment of \$37,118 in underwriting fees, insurance and other issuance costs) were transferred to an escrow agent to provide future debt service payments. Payments due on and after August 1, 2015 will be paid from the escrow account. The bonds will be called August 1, 2016. As of June 30, 2015, the escrow account had a balance of \$1,388,481. As a result, the refunded bonds were considered to be defeased and the liability was removed from the government-wide financial statements. The refund reduced total debt service payments over the next twelve years by \$93,559, with a net present value savings of 5.269%. The refunding resulted in a difference between the reacquisition price and the net carrying amount of old debt of \$103,887. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2029 using the effective interest method.

Annexation Agreement

On June 16, 1998, the Dawson Springs Independent School District annexed the remaining property in the City of Dawson Springs that was previously included in the Hopkins County School District. In consideration of the territory transfer, Dawson Springs Independent School District assumed responsibility for and services of a portion of the debt relating to bond issues of the Hopkins County School District.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 4 – LONG-TERM OBLIGATIONS, continued

Participation Agreements

The District entered into participation agreements with the Kentucky School Facilities Construction Commission (KSFCC). The Commission was created by the Kentucky legislature for the purpose of assisting local school districts in meeting school construction needs. Receipts from the KSFCC are recorded as intergovernmental-state revenue in the Debt Service Fund.

The bonds may be called prior to maturity and redemption premiums 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, 2015, for debt service (principal and interest) and the annexation agreement are as follows:

Year	Dawson Springs Independent School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2016	\$ 150,673	\$ 53,259	\$ 150,714	\$ 32,913	\$ 387,559
2017	150,658	51,657	145,745	36,597	384,657
2018	144,795	50,085	150,975	32,630	378,485
2019	150,428	48,512	150,361	29,793	379,094
2020	139,465	46,908	155,535	26,907	368,815
2021-2025	733,435	188,301	826,565	85,668	1,833,969
2026-2030	866,053	67,903	363,947	12,871	1,310,774
	<u>\$ 2,335,507</u>	<u>\$ 506,625</u>	<u>\$ 1,943,842</u>	<u>\$ 257,379</u>	<u>\$ 5,043,353</u>

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 4 – LONG-TERM OBLIGATIONS, continued

The changes in outstanding debt are as follows:

	Balance July 1, 2014	New Issues/ Adjustments	Debt Payments/ Adjustments	Balance June 30, 2015	Amounts Due in One Year
Bonds payable:					
Revenue bonds	\$ 4,380,000	\$ 1,440,000	\$ 1,585,000	\$ 4,235,000	301,387
Premium (discount)	(21,493)	(14,400)	(25,654)	(10,239)	-
Total bonds payable	<u>4,358,507</u>	<u>1,425,600</u>	<u>1,559,346</u>	<u>4,224,761</u>	<u>301,387</u>
Other liabilities:					
Annexation note payable	55,755	-	11,406	44,349	11,406
Capital leases	65,055	-	16,582	48,473	15,777
Compensated absences					
Governmental	76,213	22,737	-	98,950	-
Business-type	-	638	-	638	-
Total other liabilities	<u>197,023</u>	<u>23,375</u>	<u>27,988</u>	<u>192,410</u>	<u>27,183</u>
Total long-term obligations	<u>\$ 4,555,530</u>	<u>\$ 1,448,975</u>	<u>\$ 1,587,334</u>	<u>\$ 4,417,171</u>	<u>\$ 328,570</u>

As explained in Note 1, payments on the District's bonds are made by the Debt Service Fund. The compensated absences and lease obligations will be liquidated by the General Fund. In the past, these liabilities have been paid each year by the General Fund.

NOTE 5 – COMPENSATED ABSENCES

Upon retirement the school system employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be funded with current year's economic financial resources. These amounts are recorded in the account "accrued sick leave payable" in the General Fund. Management has estimated that the long-term obligation for governmental activities will be approximately \$98,950 and \$638 for business type activities.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 – FUND BALANCE REPORTING

Following is a summary of designations of fund balance at June 30, 2015:

	General Fund	Special Revenue	Other Governmental Funds	Total
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted:				
SFCC escrow	-	-	-	-
Committed:				
Site-based carry forward	19,210	-	-	19,210
Assigned:				
Equipment purchase	1,765	-	-	1,765
Unassigned	1,098,584	-	-	1,098,584
	<u>\$ 1,119,559</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,119,559</u>

NOTE 7 – TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	KETS matching for technology	\$ 9,162
Building	Debit Service	Bond payments	200,598
Building	General	Capital purchases	10,076
Construction	General	Capital purchases	56,138
			<u>\$ 275,974</u>

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 8 – ON-BEHALF PAYMENTS

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2015:

Health insurance	\$ 618,357
Life insurance	1,204
Administrative fee	8,261
Health reimbursement account - HRA/dental/vision	52,938
	<u>680,760</u>
Federal reimbursements of health benefits	(52,904)
	<u>627,856</u>
Kentucky Teacher's Retirement System	427,576
Technology	36,887
KISTA	9,466
Debt Service	189,765
	<u><u>\$ 1,291,550</u></u>

The District is not legally responsible for these contributions. These payments are not required to be budgeted by the District. The total of these payments has been included in revenues and the applicable expenditure functions in these financial statements, as follows:

Governmental activities:	
General Fund	\$ 1,022,361
Debt Service Fund	189,765
Business-type activities	
Food Service Fund	79,424
	<u><u>\$ 1,291,550</u></u>

NOTE 9 – PENSION PLANS

The District's employees are provided with two pensions based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description – Employees whose positions do not require a college degree beyond a high school diploma are covered by CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 – PENSION PLANS, continued

the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Required contributions by the employee are based on the tier:

	<u>Required contributions</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 – PENSION PLANS, continued

General information about the Teachers' Retirement System of the State of Kentucky ("KTRS")

Plan description – Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and, therefore, is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided – For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

1. Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
2. Complete 27 years of Kentucky service.

Employees who retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2.0% of their final average salary for each year of service if, upon retirement, their total service was less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 – PENSION PLANS, continued

Contributions – Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund 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 employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees 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-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions, three quarters percent (.75%) from Commonwealth appropriation, and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability and the total portion of the net pension liability that was associated with the District were as follows:

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 – PENSION PLANS, continued

District's proportionate share of the CERS net pension liability	\$ 1,156,200
Commonwealth's proportionate share of the KTRS net pension liability associated with the District.	<u>18,144,400</u>
	<u><u>\$ 19,300,600</u></u>

The net pension liability of the plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was .034870%.

For the year ended June 30, 2015, the District recognized pension expense of \$(49,030) related to CERS and \$427,576 related to KTRS. The District also recognized revenue of \$427,576 for KTRS support provided by the Commonwealth. At June 30, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Differences between expected and actual experience	\$ -	\$ -
Change of assumptions		
Net differences between projected and actual earnings on pension plan investments	-	126,000
Changes in proportion and difference between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>151,116</u>	<u>-</u>
Total	<u><u>\$ 151,116</u></u>	<u><u>\$ 126,000</u></u>

The amount of \$140,032 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 – PENSION PLANS, continued

Year ended June 30:		
2016	\$	25,200
2017		25,200
2018		25,200
2019		25,200
2020		-

Actuarial assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.5%	3.5%
Projected salary increases	4.5%	4.0-8.2%
Investment rate of return, net of investment expense and inflation	7.8%	7.5%

For CERS, mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For KTRS, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 – PENSION PLANS, continued

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S equity	45.00%	6.4%
Non U.S. equity	17.00%	6.5%
Fixed income	24.00%	1.6%
High yield bonds	4.00%	3.1%
Real estate	4.00%	5.8%
Alternatives	4.00%	6.8%
Cash	2.00%	1.5%
Total	<u>100.00%</u>	

Discount rate – For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035, and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of two separate benefit payments streams was used to determine the total pension liability.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 – PENSION PLANS, continued

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate – The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	\$ 1,488,734	\$ 1,156,200	\$ 815,526
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	\$ -	\$ -	\$ -

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of CERS and KTRS.

NOTE 10 – DEFERRED COMPENSATION

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on its financial statements. The District does not contribute to these plans, and employees of the District contributed \$22,010 to these plans during the year ended June 30, 2015.

NOTE 11 – CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review, the funds are considered not to have been used for the intended purpose, the grantor 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.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 11 – CONTINGENCIES, continued

The District was notified in FY 2014 by the Kentucky School Board Insurance Trust of an estimated liability of \$53,944 (District's share) for workers compensation losses incurred by the Trust. In August 2014, the District received an invoice for \$53,944 which is the amount expected to satisfy the claim. The District made a down payment of \$13,486 in August 2014. The District chose to pay the remaining liability of \$40,458 in six installments beginning August 15, 2015. The entire unpaid balance of the assessment is due and payable in full on August 15, 2020.

NOTE 12 – RISK MANAGEMENT AND LITIGATION

The District is exposed to various risks of loss of assets associated with the risks related to torts; theft of, damage to, and destruction of assets; fire, personal liability, vehicular accidents; errors and omissions; injuries to employees; fiduciary responsibility; and natural disasters. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include workers' compensation insurance.

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

From time to time, the District is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the District's financial statements

NOTE 13 – COBRA

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

The District has notified all terminated employees of available continuing insurance coverage as mandated by COBRA.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2015.

NOTE 15 – ANNUAL FINANCIAL REPORT DIFFERENCES

The proprietary fund financial statements reflect the implementation of GASB 68 (see Note 16). The District has not recorded the implementation entries on their Audited Annual Financial Report (AFR) submitted to Kentucky Department of Education.

NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

Effective July 1, 2014, the District was required to adopt Government Accounting Standards Board (GASB) Statement No.68, *Accounting and Financial Reporting for Pensions* (GASB 68). GASB 68 replaced the requirements of GASB 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers such as the District are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. Refer to the Defined Benefit section of Note 9 for further details.

As a result of implement this statement, the following line items have been added to the Statements of Net Position.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES, continued

<u>Item</u>	<u>Government- Wide</u>	<u>School Food Service</u>	<u>Total</u>
<u>June 30, 2015</u>			
Deferred outflows - pension plan	\$ 106,816	\$ 33,216	\$ 140,032
Deferred inflows - pension plan	76,890	23,910	100,800
Net pension liability	881,949	274,251	1,156,200
<u>June 30, 2014</u>			
Deferred outflows - pension plan	\$ 115,271	\$ 35,845	\$ 151,116
Deferred inflows - pension plan	96,113	29,887	126,000
Net pension liability	1,004,696	312,420	1,317,116

As this statement is applied retroactively, the financial statements for the year ended June 30, 2014 has been restated to apply the changes noted with the net pension liability.

The effect of these changes is as follows:

	<u>Government- Wide</u>	<u>School Food Service</u>	<u>Total</u>
Net position - June 30, 2014 as originally reported	\$ 4,427,450	\$ 217,614	\$ 4,645,064
GASB 68 adjustment to record net pension liability as of June 30, 2014	<u>(889,425)</u>	<u>(276,575)</u>	<u>(1,166,000)</u>
Net position - June 30, 2014, restated	<u>\$ 3,538,025</u>	<u>\$ (58,961)</u>	<u>\$ 3,479,064</u>
Change in net position - June 30, 2015 as originally reported	\$ (9,155)	\$ 1,008	\$ (8,147)
GASB 68 adjustment to record net pension expense for the year ended June 30, 2015 (recorded in employee benefits)	<u>37,400</u>	<u>11,630</u>	<u>49,030</u>
Change - June 30, 2015, restated	<u>\$ 28,245</u>	<u>\$ 12,638</u>	<u>\$ 40,883</u>

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 17 – UPCOMING PRONOUNCEMENTS

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the District's 2016 fiscal year.

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive footnote disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the District will, after adoption of GASB 75, recognize on the face of the financial statements its net OPEB liability. The District is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 74 is effective for fiscal years beginning after June 15, 2016 whereas GASB 75 is effective one year later.

REQUIRED SUPPLEMENTARY INFORMATION

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
From local sources:				
Taxes				
Property	\$ 281,000	\$ 281,000	\$ 389,479	\$ 108,479
Motor vehicle	60,000	60,000	78,026	18,026
Utilities	90,000	90,000	136,310	46,310
Other	7,510	7,510	11,057	3,547
Earnings on investments	200	200	230	30
Other local revenues	3,500	3,500	15,227	11,727
Intergovernmental - state	3,264,089	3,264,089	3,285,239	21,150
Total revenues	<u>3,706,299</u>	<u>3,706,299</u>	<u>3,915,568</u>	<u>209,269</u>
EXPENDITURES				
Current:				
Instruction	2,326,303	2,326,303	2,152,935	173,368
Support services:				
Student	175,474	175,474	168,655	6,819
Instructional staff	140,799	140,799	69,982	70,817
District administration	705,987	705,987	235,926	470,061
School administration	330,755	330,755	329,460	1,295
Business	71,018	71,018	104,453	(33,435)
Plant operation and maintenance	510,302	510,302	459,075	51,227
Student transportation	151,149	151,149	119,854	31,295
Community services	50,016	50,016	52,111	(2,095)
Land/Site acquisition	42,456	42,456	-	42,456
Debt service	150,017	150,017	165,932	(15,915)
Total expenditures	<u>4,654,276</u>	<u>4,654,276</u>	<u>3,858,383</u>	<u>795,893</u>
Excess (deficit) of revenues over (under) expenditures	<u>(947,977)</u>	<u>(947,977)</u>	<u>57,185</u>	<u>1,005,162</u>
Other financing sources (uses)				
Proceeds from sale of fixed assets	-	-	42,341	42,341
Operating transfers in	-	-	66,213	66,213
Operating transfers out	-	-	(9,162)	(9,162)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>99,392</u>	<u>99,392</u>
Net change in fund balance	<u>(947,977)</u>	<u>(947,977)</u>	<u>156,577</u>	<u>1,104,554</u>
Fund balance, July 1, 2014	<u>947,977</u>	<u>947,977</u>	<u>962,982</u>	<u>15,005</u>
Fund balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,119,559</u>	<u>\$ 1,119,559</u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - SPECIAL REVENUE
FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amount			Variance with Final Budget Favorable (Unfavorable)
REVENUES	Original	Final	Actual	
From local sources:				
Other local revenues	\$ -	\$ -	\$ 10,469	\$ 10,469
Intergovernmental - state	255,827	255,827	253,731	(2,096)
Intergovernmental - federal	411,220	411,220	383,797	(27,423)
Total revenues	<u>667,047</u>	<u>667,047</u>	<u>647,997</u>	<u>(19,050)</u>
EXPENDITURES				
Current:				
Instruction	564,617	564,017	534,945	29,072
Support services:				
Instructional staff	30,262	30,262	30,649	(387)
Business	-	-	9,055	(9,055)
Student transportation	7,532	7,532	6,113	1,419
Community services	65,236	65,236	76,397	(11,161)
Total expenditures	<u>667,647</u>	<u>667,047</u>	<u>657,159</u>	<u>9,888</u>
Excess (deficit) of revenues over (under) expenditures	<u>(600)</u>	<u>-</u>	<u>(9,162)</u>	<u>(9,162)</u>
Other financing sources (uses)				
Operating transfers in	-	-	9,162	9,162
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>9,162</u>	<u>9,162</u>
Net change in fund balance	<u>(600)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, July 1, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2015	<u>\$ (600)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015**

NOTE 1 – BUDGETARY INFORMATION

The District's budgetary process accounts for transactions on a basis other than GAAP. Differences between the budgetary accounting methods and GAAP are not material.

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District does not budget for on-behalf payments, which are reported with the General and Food Service Funds in the fund financial statements and the budgetary comparison supplementary information.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year.

Additionally, the District must prepare an annual allocation to schools by March 1 of each year for the following fiscal year. This allocation must include the amount for certified and classified staff based on the District's staffing policy and the amount for instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each year. This budget must contain a 2% reserve.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of the current fiscal year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

Reconciliation to the General Fund

Revenues - budgetary basis	\$ 3,915,568
On-behalf payments	<u>1,022,360</u>
Total revenues - modified cash basis	<u><u>\$ 4,937,928</u></u>
Expenditures - budgetary basis	\$ 3,858,383
On-behalf payments	<u>1,022,360</u>
Total expenditures - modified cash basis	<u><u>\$ 4,880,743</u></u>

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
County Employees Retirement System

	Year Ended June 30, 2015
District's proportion of the net pension liability	0.034870%
District's proportionate share of the net pension liability	\$ 1,156,200
State's proportionate share of the net pension liability associated with the District	<u>-</u>
Total	<u>\$ 1,156,200</u>
District's covered-employee payroll	\$ 792,477
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	68.54%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED CONTRIBUTIONS
County Employees Retirement System

	Year Ended June 30, 2015
Contractually required contribution	\$ 140,032
Contributions in relation to the contractually required contribution	140,032
Contribution deficiency	<u>-</u>
District's covered-employee payroll	\$ 792,477
Contributions as a percentage of covered-employee payroll	17.67%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
Kentucky Teachers' Retirement System

	Year Ended June 30, 2015
District's proportion of the net pension liability	0%
District's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the District	<u>18,144,400</u>
Total	<u><u>\$ 18,144,400</u></u>
District's covered-employee payroll	\$ 2,655,664
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	14.64%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED CONTRIBUTIONS
Kentucky Teachers' Retirement System**

	Year Ended June 30, 2015
Contractually required contribution - On behalf payments - KDE	\$ 427,576
Contributions in relation to the contractually required contribution	<u>427,576</u>
Contribution deficiency	<u><u>-</u></u>
District's covered-employee payroll	\$ 2,655,664
Contributions as a percentage of covered-employee payroll	16.10%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLANS
FOR THE YEAR ENDED JUNE 30, 2015**

Changes of benefit terms – None.

Changes of assumptions – None.

OTHER SUPPLEMENTARY INFORMATION

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015

	FSPK Fund	SEEK Capital Outlay Fund	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ -
	<u> </u>	<u> </u>	<u> </u>
Total assets and resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
	<u> </u>	<u> </u>	<u> </u>
Fund Balances			
Nonspendable	-	-	-
Spendable			
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	<u> </u>	<u> </u>	<u> </u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	FSPK Fund	SEEK Capital Outlay Fund	Total Nonmajor Governmental Funds
REVENUES			
From local sources:			
Taxes			
Property	\$ 34,541	\$ -	\$ 34,541
Intergovernmental - state	189,572	59,843	249,415
Total revenues	224,113	59,843	283,956
EXPENDITURES			
Plant operation and maintenance	-	47,187	47,187
Building acquisition and construction	26,987	-	26,987
Total expenditures	26,987	47,187	74,174
Excess (deficit) of revenues over (under) expenditures	197,126	12,656	209,782
Other financing sources (uses)			
Operating transfers out	(210,674)	(56,138)	(266,812)
Total other financing sources (uses)	(210,674)	(56,138)	(266,812)
Net change in fund balances	(13,548)	(43,482)	(57,030)
Fund balances, July 1, 2014	13,548	43,482	57,030
Fund balances, June 30, 2015	\$ -	\$ -	\$ -

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS
ALL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Cash Balance</u> <u>July 1, 2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash Balance</u> <u>June 30, 2015</u>	<u>Accounts</u> <u>Receivable</u>	<u>Accounts</u> <u>Payable</u>	<u>Fund Balance</u> <u>June 30, 2015</u>
Dawson Springs Junior and Senior High School	\$ 73,538	\$ 202,547	\$ 194,295	\$ 81,790	\$ -	\$ -	\$ 81,790
Dawson Springs Elementary	9,456	24,126	23,610	9,972	-	-	9,972
Totals	<u>\$ 82,994</u>	<u>\$ 226,673</u>	<u>\$ 217,905</u>	<u>\$ 91,762</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,762</u>

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS
SCHOOL ACTIVITY FUNDS - JUNIOR AND SENIOR HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2015

	Cash Balance July 1, 2014	Receipts	Disbursements	Cash Balance June 30, 2015	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2015
Academic	\$ 40	\$ 533	\$ 564	\$ 9	\$ -	\$ -	\$ 9
Annual Staff	8,002	6,200	7,862	6,340	-	-	6,340
Art Club	1,219	-	172	1,047	-	-	1,047
Athletic	18,436	25,406	28,636	15,206	-	-	15,206
Back to school	1,655	2,984	2,214	2,425	-	-	2,425
Baseball boosters	199	169	125	243	-	-	243
Basketball Concessions	-	12,697	3,963	8,734	-	-	8,734
BETA Club	189	3,850	2,939	1,100	-	-	1,100
Boys basketball	355	2,563	1,982	936	-	-	936
Boys soccer	2,452	2,642	2,424	2,670	-	-	2,670
Cheerleading - HS	679	4,343	4,381	641	-	-	641
Project Prom	2,653	7,523	6,095	4,081	-	-	4,081
Class of 2012	-	-	-	-	-	-	-
Class of 2013	-	-	-	-	-	-	-
Class of 2014	1,116	-	1,116	-	-	-	-
Class of 2015	45	1,398	1,443	-	-	-	-
Class of 2016	633	4,284	3,746	1,171	-	-	1,171
Class of 2017	845	251	-	1,096	-	-	1,096
Class of 2018	411	179	-	590	-	-	590
Class of 2019	267	358	-	625	-	-	625
Class of 2020	-	179	-	179	-	-	179
Cokes - HS	1,008	1,406	1,665	749	-	-	749
Crime stoppers	-	-	-	-	-	-	-
Cross Country	2,062	6,126	7,901	287	-	-	287
Dance Team	-	-	-	-	-	-	-
DECA	243	-	243	-	-	-	-
Drama Club	22	-	-	22	-	-	22
Earth Day	102	-	-	102	-	-	102
Education Fund	2,204	7,068	7,188	2,084	-	-	2,084
FBLA	1,727	553	217	2,063	-	-	2,063
FCA	15	513	497	31	-	-	31
Girls basketball	3,670	6,472	7,959	2,183	-	-	2,183

(continued)

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS, continued
SCHOOL ACTIVITY FUNDS - JUNIOR AND SENIOR HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2015

	Cash Balance July 1, 2014	Receipts	Disbursements	Cash Balance June 30, 2015	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2015
Girls soccer	2,443	4,409	5,114	1,738	-	-	1,738
Golf	1,326	3,216	2,211	2,331	-	-	2,331
Library (Media Center)	833	77	-	910	-	-	910
Jr. Beta Club	59	405	420	44	-	-	44
Jr. Hi Academic	366	2,448	1,944	870	-	-	870
MS boys basketball	598	2,874	3,067	405	-	-	405
MS cheerleaders	107	7,752	5,938	1,921	-	-	1,921
MS girls basketball	2,503	903	305	3,101	-	-	3,101
Music	9,087	37,552	39,367	7,272	-	-	7,272
National Honor Society	-	-	-	-	-	-	-
Office Fund	1,652	2,193	2,605	1,240	-	-	1,240
Paw Mart	-	-	-	-	-	-	-
Softball	2,287	6,290	6,499	2,078	-	-	2,078
Spanish Club	21	-	-	21	-	-	21
Student Awards	22	1,247.00	1,006.00	263	-	-	263
Track	434	2,333	1,562	1,205	-	-	1,205
Field trips	81	-	81	-	-	-	-
Math Club	187	323	275	235	-	-	235
Bass Fishing	94	1,676	1,448	322	-	-	322
Math a Thon	-	112	112	-	-	-	-
Mascot Fund	1,110	-	-	1,110	-	-	1,110
Student Ambassadors	79	74	-	153	-	-	153
Relay for Life	-	-	-	-	-	-	-
Senior Special Account	-	36,914	36,914	-	-	-	-
Soccer Concessions	-	3,408	1,451	1,957	-	-	1,957
	<u>73,538</u>	<u>211,903</u>	<u>203,651</u>	<u>81,790</u>	<u>-</u>	<u>-</u>	<u>81,790</u>
Less: Interfund Transfers	-	(9,356)	(9,356)	-	-	-	-
Totals	<u>\$ 73,538</u>	<u>\$ 202,547</u>	<u>\$ 194,295</u>	<u>\$ 81,790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,790</u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	
U.S. Department of Education				
Passed through State Department of Education:				
Title I Grants to Local Education Agencies	84.010	310000214 310000213	\$ 140,903 63,590	\$ 204,493
Career and Technical Education - Basic Grants to States	84.048	371000214		5,578
Special Education Preschool Grants	84.173**	380000214		12,139
Improving Teacher Quality State Grants	84.367	323000214 323000213	4,457 9,437	13,894
Special Education - Grants to States	84.027**	381000214 381000213	135,574 1,939	137,513
Rural School	84.358	314000214 314000213	9,166 1,014	10,180
Race to the Top	84.413	396000211		
Total U. S. Department of Education				<u>383,797</u>
U.S. Department of Agriculture				
Passed through State Department of Education:				
School Breakfast Program***	* 10.553	7760005-14 7760005-15	14,462 92,164	106,626
National School Lunch Program***	* 10.555	7750002-14 7750002-15	48,504 177,662	
Noncash Assistance - Commodities (Note 4)		Fund 51	23,333	249,499
Total U.S. Department of Agriculture				<u>356,125</u>
Total Expenditures of Federal Awards				<u>\$ 739,922</u>

*Child Nutrition Cluster

**Special Education Cluster

***Major Program

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Dawson Springs Independent School District (the "District") under programs of the federal government for the year ended June 30, 2015. 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 position 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.

NOTE 3 – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

NOTE 4 – COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair market value of the USDA food commodities received and disbursed.

INTERNAL CONTROL AND COMPLIANCE

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
WALTER G. CUMMINGS, CPA



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Dawson Springs Independent School District (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 12, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (item 2015-001).

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 material instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

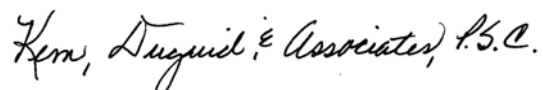
Dawson Springs Independent School District's Response to Findings

Dawson Springs Independent School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Dawson Springs Independent School District's response was not subjected to auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kem, Duguid & Associates, P.S.C.



Certified Public Accountants
Hopkinsville, Kentucky

November 12, 2015

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
WALTER G. CUMMINGS, CPA



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

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

Report on Compliance for Each Major Federal Program

We have audited Dawson Springs Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Dawson Springs Independent School District's major federal programs for the year ended June 30, 2015. Dawson Springs Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Dawson Springs Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

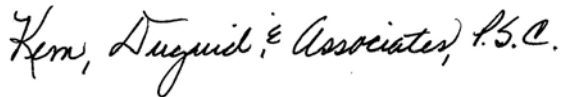
Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Kem, Duguid & Associates, P.S.C.



Certified Public Accountants
Hopkinsville, Kentucky

November 12, 2015

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? ___ yes X none reported

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

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

Identification of major federal programs:

<u>Program Title</u>	<u>CFDA Number</u>
School Breakfast Program	10.553
National School Lunch Program	10.555

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

Auditee qualified as a low-risk auditee? X yes ___ no

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

Section II – Financial Statement Findings

2015-001 Internal Controls

Condition – The District does not have control over the preparation of the financial statements, including footnote disclosures, which would prevent or detect a misstatement in the financial statements. The independent auditor cannot be a compensating control for the client.

Criteria – Statement on Auditing Standards (SAS 115) states that a control deficiency exists when an entity does not have controls in place which would prevent or detect a misstatement in the financial statements.

Effect – Lack of accountability and possible misstatement of financial statements, including footnote disclosures.

Recommendation – The District should designate an individual who possesses suitable skill, knowledge, and/or experience to review the financial statements, including footnote disclosures, and take responsibility for these financial statements.

Response – It is not feasible for the District to invest the resources for a member of the financial accounting staff to obtain the training necessary to obtain the knowledge related to Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) pronouncements and to remain current with this knowledge. Management does not consider the deficiency to be imperative to the daily internal control operations of the District.

Section III – Federal Award Findings and Questioned Costs

None reported

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

Financial Statement Findings

2014-001 Internal Controls

Condition – The District does not have control over the preparation of the financial statements, including footnote disclosures, which would prevent or detect a misstatement in the financial statements. The independent auditor cannot be a compensating control for the client.

Recommendation – The District should designate an individual who possesses suitable skill, knowledge, and/or experience to review the financial statements, including footnote disclosures, and take responsibility for these financial statements.

Current Status – The finding was repeated for the fiscal year ending June 30, 2015.

MANAGEMENT COMMENTS FOR AUDIT

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
WALTER G. CUMMINGS, CPA



November 14, 2015

Members of the Board of Education
Dawson Springs Independent School District
Dawson Springs, Kentucky

In planning and performing our audit of the financial statements of Dawson Springs Independent School District (the "District") for the year ended June 30, 2015, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of some matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated November 12, 2015, contains our report on the District's internal control. This letter does not affect our report dated November 12, 2015 on the financial statements of the Dawson Springs Independent School District.

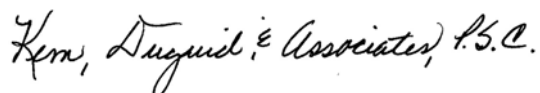
We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any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

We performed a follow-up on the prior year finding with the status of these findings documented on page 77 of this report.

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

Respectfully,

Kem, Duguid & Associates, P.S.C.



Certified Public Accountants
Hopkinsville, Kentucky

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

DAWSON SPRINGS JR/SR HIGH SCHOOL

- I. **Condition** – Cash receipts testing of a randomly chosen sample revealed several instances of the Multiple Receipt Form not being signed by the student remitting money.

Criteria – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) requires that students third grade and above must sign the Multiple Receipt Form.

Cause – Oversight.

Effect – Noncompliance with *Accounting Procedures for Kentucky School Activity Funds* (Red Book).

Recommendation – The person using the Multiple Receipt Form should require all students third grade and above remitting money to sign the form.

Response – The school will comply with the recommendation.

- II. **Condition** – Cash disbursements testing of a randomly chosen sample revealed instances in which only one check signer signed the check.

Criteria – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) states that all checks shall contain the signatures of the principal's designee, and the school treasurer. The principal designee must be someone that has administrative approving authority.

Cause – Oversight.

Effect – Noncompliance with *Accounting Procedures for Kentucky School Activity Funds* (Red Book).

Recommendation – Any check written shall have two signatures, the school treasurer and a principal's designee.

Response – The school will comply with the recommendation.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

DAWSON SPRINGS JUNIOR AND SENIOR HIGH SCHOOL

- I. **Condition** – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) required forms (or reasonable facsimiles) and various procedures were not used correctly:

Numerous purchase orders dated after invoice
Inventory control worksheet not used properly

Recommendation – The principal and secretary at each school should review the “Red Book” and comply with its requirements regarding the use of forms and procedures.

Current Status – The finding was repeated with respect to purchase orders dated after invoice and proper usage of inventory control worksheets for the fiscal years ended June 30, 2015 and June 30, 2014.

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