

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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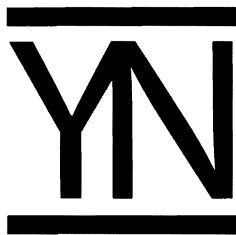
**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
JUNE 30, 2016**

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



YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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, 2016, 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, 2016, 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.

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 information on pages 4-12, 52-59, and 61-67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 10, 2016, on our consideration of Dawson Springs Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Dawson Springs Independent School District's internal control over financial reporting and compliance.

York, Neel & Associates, LLP

A handwritten signature in cursive script that reads "York, Neel & Associates LLP".

Certified Public Accountants
Hopkinsville, Kentucky

November 10, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

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, 2016. 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 \$1,438,358, as compared with the beginning cash balance of \$1,322,245. The ending cash balance consisted of General Fund of \$1,139,690, Special Revenue Fund of \$20,625, Food Service Fund of \$175,118, and School Activity Funds of \$102,925.
- The General Fund had \$4,906,220 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 \$4,937,928. Excluding interfund transfers, there was \$5,038,880 in General Fund expenditures. This compares to \$4,880,743 in General Fund expenditures for the prior year.
- The financial statements reflect a total of \$1,300,666 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 revenues 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, 2016**

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, 2016**

- *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 52.

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 \$3,167,604 as of June 30, 2016.

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, 2016**

Following is a summary of the District’s government-wide net position for the fiscal years ended June 30, 2016 and 2015:

Net Position for June 30, 2016 and 2015

	Governmental Activities		Business-type Activities		District Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current assets						
and other assets	\$ 1,212,860	\$ 1,171,004	\$ 181,771	\$ 152,378	\$ 1,394,631	\$ 1,323,382
Capital assets	7,050,303	7,584,537	60,055	66,882	7,110,358	7,651,419
Total assets	8,263,163	8,755,541	241,826	219,260	8,504,989	8,974,801
Deferred outflows of resources	372,902	265,878	70,968	33,216	443,870	299,094
Liabilities						
Current liabilities	110,215	79,777	-	-	110,215	79,777
Noncurrent obligations	5,232,792	5,298,482	362,648	274,889	5,595,440	5,573,371
Total liabilities	5,343,007	5,378,259	362,648	274,889	5,705,655	5,653,148
Deferred inflows of resources	57,667	76,890	17,933	23,910	75,600	100,800
Net position						
Investment in capital assets, net of related debt	3,081,936	3,311,303	60,055	66,882	3,141,991	3,378,185
Restricted	-	-	-	-	-	-
Unrestricted	153,455	254,967	(127,842)	(113,205)	25,613	141,762
Total net position	\$ 3,235,391	\$ 3,566,270	\$ (67,787)	\$ (46,323)	\$ 3,167,604	\$ 3,519,947

Change in net position. The District’s governmental activities net position decreased by \$330,879. The business-type activities net position decreased by \$21,464.

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 \$189,765. 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, 2016**

Following is a summary of changes in the District's net position for the years ended June 30, 2016 and 2015:

Changes in Net Position for the Fiscal Years Ended June 30, 2016 and 2015

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Operating grants and contributions	\$ 1,718,555	\$ 1,659,888	\$ 416,914	\$ 356,125	\$ 2,135,469	\$ 2,016,013
Capital grants and contributions	189,765	189,765	-	-	189,765	189,765
Charges for services	-	-	39,189	43,686	39,189	43,686
General revenues:						
Property taxes	394,029	424,020	-	-	394,029	424,020
Other taxes	200,320	225,393	-	-	200,320	225,393
Investment earnings	270	230	24	25	294	255
State aid	3,519,282	3,534,654	75,680	83,593	3,594,962	3,618,247
Other	(114,190)	68,788	(977)	(942)	(115,167)	67,846
Total revenues	<u>5,908,031</u>	<u>6,102,738</u>	<u>530,830</u>	<u>482,487</u>	<u>6,438,861</u>	<u>6,585,225</u>
Expenses:						
Instruction	3,907,977	3,799,475	-	-	3,907,977	3,799,475
Student support services:	188,247	199,634	-	-	188,247	199,634
Instructional support	149,276	106,597	-	-	149,276	106,597
District administration	335,716	307,573	-	-	335,716	307,573
School administration	378,811	371,357	-	-	378,811	371,357
Business support	140,642	114,418	-	-	140,642	114,418
Plant operations	547,700	599,876	-	-	547,700	599,876
Student transportation	152,618	137,252	-	-	152,618	137,252
Community services	174,283	171,468	-	-	174,283	171,468
Interest on long-term debt	263,640	229,725	-	-	263,640	229,725
Bond issuance costs	-	37,118	-	-	-	37,118
Food service	-	-	552,294	469,849	552,294	469,849
Total expenses	<u>6,238,910</u>	<u>6,074,493</u>	<u>552,294</u>	<u>469,849</u>	<u>6,791,204</u>	<u>6,544,342</u>
Increase (Decrease) in net position	<u>\$ (330,879)</u>	<u>\$ 28,245</u>	<u>\$ (21,464)</u>	<u>\$ 12,638</u>	<u>\$ (352,343)</u>	<u>\$ 40,883</u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

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 \$1,139,690, an increase of \$20,131 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, 2016 and 2015.

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, 2016**

Following is a summary of fund balances for the fiscal years ended June 30, 2016 and 2015:

Governmental Funds Balances as of June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Governmental Funds			
General Fund	\$ 1,139,690	\$ 1,119,559	\$ 20,131
Special Revenue Fund	-	-	-
Building Fund	-	-	-
Capital Outlay	-	-	-
Debt Service Fund	-	-	-
Total governmental funds	<u>\$ 1,139,690</u>	<u>\$ 1,119,559</u>	<u>\$ 20,131</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 \$1,098,190, while total fund balance reached \$1,139,690. 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 21.79% of total General Fund expenditures, while total fund balance represents 22.62% of that same amount.

During the current fiscal year, the total fund balance of the General Fund increased by \$20,131. Revenues and transfers totaling \$5,072,728 increased by \$26,246, while expenditures and transfers totaling \$5,052,597 increased by \$162,692.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with directives from the Kentucky Department of Education (DOE) and Kentucky law, the budgets of the District’s funds 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 \$386,061 or 8.05%. 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 \$1,049,848 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, 2016, excluding interfund transfers, beginning balances, and on-behalf payments, were \$3,856,372; compared to the total budgeted revenues of \$3,691,710.
- The District’s total expenditures for General Fund activities for the fiscal year ended June 30, 2016, excluding interfund transfers and on-behalf payments, were \$3,989,032; compared to the total budgeted expenditures of \$4,790,485.
- The fund balance at the end of the 2016 fiscal year for all Governmental Funds was \$1,139,690 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, 2016, the District had \$7,110,357 invested in capital assets net of depreciation: historical costs totaled \$13,500,866 with accumulated depreciation totaling \$6,390,509. 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 \$127,506. Depreciation charged to expense during the year totaled \$444,389, 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, 2016**

Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2016 and 2015.

Net Capital Assets for the Fiscal Years Ended June 30, 2016 and 2015

	Governmental Activities		Business-type Activities		District Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 495,114	\$ 495,114	\$ -	\$ -	\$ 495,114	\$ 495,114
Land improvements	94,010	125,001	-	-	94,010	125,001
Building and improvements	6,143,743	6,610,432	987	1,066	6,144,730	6,611,498
Technology equipment	188,407	222,259	1,641	2,749	190,048	225,008
General equipment	51,613	56,994	-	-	51,613	56,994
Vehicles	77,416	74,737	-	-	77,416	74,737
Food service equipment	-	-	57,427	63,067	57,427	63,067
Total	<u>\$ 7,050,303</u>	<u>\$ 7,584,537</u>	<u>\$ 60,055</u>	<u>\$ 66,882</u>	<u>\$ 7,110,358</u>	<u>\$ 7,651,419</u>

Long-Term Debt – The District's long-term general obligation bonds outstanding at June 30, 2016 were \$3,977,962. 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 \$1,793,128 of the bonds leaving the District to pay \$2,184,834. 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 \$32,962.

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, 2016

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,160,315	\$ 175,118	\$ 1,335,433
Accounts receivable:			
Taxes	-	-	-
Intergovernmental - indirect federal	52,545	-	52,545
Inventory	-	6,653	6,653
Capital assets:			
Non-depreciable	495,114	-	495,114
Depreciable (net)	6,555,189	60,055	6,615,244
Total assets	<u>8,263,163</u>	<u>241,826</u>	<u>8,504,989</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension amounts	228,220	70,968	299,188
Deferred amount on debt refundings	144,682	-	144,682
Total deferred outflows of resources	<u>372,902</u>	<u>70,968</u>	<u>443,870</u>
LIABILITIES			
Unearned revenue	73,170	-	73,170
Interest payable	37,045	-	37,045
Noncurrent obligations			
Portion due or payable within one year:			
Bonds payable	296,403	-	296,403
Capital lease obligations	16,370	-	16,370
Note payable	11,406	-	11,406
Portion due or payable after one year:			
Bonds payable	3,639,268	-	3,639,268
Capital lease obligations	16,326	-	16,326
Note payable	21,556	-	21,556
Compensated absences	67,894	825	68,719
Net pension liability	1,163,569	361,823	1,525,392
Total liabilities	<u>5,343,007</u>	<u>362,648</u>	<u>5,705,655</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension amounts	57,667	17,933	75,600
Total deferred inflows of resources	<u>57,667</u>	<u>17,933</u>	<u>75,600</u>
NET POSITION			
Invested in capital assets, net of related debt	3,081,936	60,055	3,141,991
Unrestricted	153,455	(127,842)	25,613
Total net position	<u>\$ 3,235,391</u>	<u>\$ (67,787)</u>	<u>\$ 3,167,604</u>

See accompanying notes to financial statements

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	
Governmental Activities:					
Current:					
Instruction	\$ 3,907,977	\$ -	\$ 1,364,077	\$ -	\$ (2,543,900)
Support services:					
Student	188,247	-	7,433	-	(180,814)
Instructional staff	149,276	-	54,787	-	(94,489)
District administration	335,716	-	67,165	-	(268,551)
School administration	378,811	-	58,058	-	(320,753)
Business	140,642	-	22,454	-	(118,188)
Plant operation and maintenance	547,700	-	35,551	-	(512,149)
Student transportation	152,618	-	37,350	-	(115,268)
Community service activities	174,283	-	71,680	-	(102,603)
Interest on long-term debt	263,640	-	-	189,765	(73,875)
Total governmental activities	6,238,910	-	1,718,555	189,765	(4,330,590)
Business-Type Activities:					
Food service	552,294	39,189	416,914	-	(96,191)
Total business-type activities	552,294	39,189	416,914	-	(96,191)
Total activities	\$ 6,791,204	\$ 39,189	\$ 2,135,469	\$ 189,765	\$ (4,426,781)
			Governmental Activities	Business-Type Activities	Total
Changes in Net Position					
Net revenues (expenses)			\$ (4,330,590)	\$ (96,191)	\$ (4,426,781)
General Revenues					
Taxes:					
Property			394,029	-	394,029
Motor vehicle			72,939	-	72,939
Utilities			115,804	-	115,804
Other			11,577	-	11,577
Investment earnings			270	24	294
State aid			3,519,282	75,680	3,594,962
Gain (loss) on sale of fixed assets			(130,186)	(977)	(131,163)
Miscellaneous			15,996	-	15,996
Total general revenues			3,999,711	74,727	4,074,438
Change in net position			(330,879)	(21,464)	(352,343)
Net position, July 1, 2015			3,566,270	(46,323)	3,519,947
Net position, June 30, 2016			\$ 3,235,391	\$ (67,787)	\$ 3,167,604

See accompanying notes to financial statements

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Special Revenue Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,139,690	\$ 20,625	\$ -	\$ -	\$ 1,160,315
Accounts receivable:					
Taxes	-	-	-	-	-
Intergovernmental - indirect federal	-	52,545	-	-	52,545
Total assets	<u>\$ 1,139,690</u>	<u>\$ 73,170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,212,860</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Unearned revenue	\$ -	\$ 73,170	\$ -	\$ -	\$ 73,170
Total liabilities	<u>-</u>	<u>73,170</u>	<u>-</u>	<u>-</u>	<u>73,170</u>
Fund balances					
Nonspendable	-	-	-	-	-
Spendable:					
Restricted	-	-	-	-	-
Committed	9,591	-	-	-	9,591
Assigned	31,909	-	-	-	31,909
Unassigned	1,098,190	-	-	-	1,098,190
Total fund balances	<u>1,139,690</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,139,690</u>
Total liabilities and fund balances	<u>\$ 1,139,690</u>	<u>\$ 73,170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,212,860</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, 2016**

Total fund balance per fund financial statements	\$ 1,139,690
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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 \$13,277,871 and the accumulated depreciation is \$6,227,568.	7,050,303
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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	144,682
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Pension related items	
Deferred outflow of resources	228,220
Deferred inflow of resources	(57,667)
Net pension liability	(1,163,569)

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	\$ (3,935,671)	
Lease obligations	(32,696)	
Note payable	(32,962)	
Interest payable on bonds	(37,045)	
Noncurrent portion of accumulated sick leave	(67,894)	(4,106,268)

Net position for governmental activities	\$ 3,235,391
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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, 2016

	General Fund	Special Revenue Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
From local sources:					
Taxes					
Property	\$ 359,587	\$ -	\$ -	\$ 34,442	\$ 394,029
Motor vehicle	72,939	-	-	-	72,939
Utilities	115,804	-	-	-	115,804
Other	11,577	-	-	-	11,577
Earnings on investments	270	-	-	-	270
Other local revenues	9,290	6,708	-	-	15,998
Intergovernmental - state	4,336,753	278,268	179,160	242,982	5,037,163
Intergovernmental - federal	-	390,439	-	-	390,439
Total revenues	4,906,220	675,415	179,160	277,424	6,038,219
EXPENDITURES					
Current:					
Instruction	3,055,972	536,656	-	-	3,592,628
Support services:					
Student	179,697	-	-	-	179,697
Instructional staff	99,568	48,799	-	-	148,367
District administration	323,701	-	-	-	323,701
School administration	393,831	-	-	-	393,831
Business	117,427	23,140	-	-	140,567
Plant operations and maintenance	515,605	-	-	-	515,605
Student transportation	148,392	6,668	-	-	155,060
Community service activities	58,142	73,869	-	-	132,011
Debt service	146,545	-	383,092	-	529,637
Total expenditures	5,038,880	689,132	383,092	-	6,111,104
Excess (deficit) of revenues over (under) expenditures	(132,660)	(13,717)	(203,932)	277,424	(72,885)
Other financing sources (uses)					
Proceeds from disposal of fixed assets	93,016	-	-	-	93,016
Operating transfers in	73,492	13,717	203,932	-	291,141
Operating transfers out	(13,717)	-	-	(277,424)	(291,141)
Total other financing sources (uses)	152,791	13,717	203,932	(277,424)	93,016
Net changes in fund balances	20,131	-	-	-	20,131
Fund balances, July 1, 2015	1,119,559	-	-	-	1,119,559
Fund balances, June 30, 2016	\$ 1,139,690	\$ -	\$ -	\$ -	\$ 1,139,690

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, 2016**

Net change in fund balance - Total governmental funds \$ 20,131

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	\$ 122,622	
Depreciation expense	(433,654)	
Net capital outlay		(311,032)

In the statement of 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.

(223,202)

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.

Note repayments	11,387	
Bond repayments	290,000	
KISTA lease payments	15,777	317,164

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	(140,993)	
Accumulated sick leave-noncurrent portion	31,056	
Amortization of bond discount/premium	(14,380)	
Amortization of gain/loss on debt refunding	(910)	
Accrued interest on bonds	(8,713)	
Net decrease in expenditures		(133,940)

Change in net position of governmental activities		\$ (330,879)
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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, 2016

	<u>School Food Service Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 175,118
Inventory	<u>6,653</u>
Total current assets	<u>181,771</u>
Noncurrent assets	
Capital assets	222,996
Less: accumulated depreciation	<u>(162,941)</u>
Total noncurrent assets	<u>60,055</u>
Total assets	<u>241,826</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension amounts	<u>70,968</u>
Total deferred outflows of resources	<u>70,968</u>
LIABILITIES	
Long-term liabilities	
Compensated absences	825
Net pension liability	<u>361,823</u>
Total long-term liabilities	<u>362,648</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred pension amounts	<u>17,933</u>
Total deferred inflows of resources	<u>17,933</u>
NET POSITION	
Invested in capital assets, net of related debt	60,055
Unrestricted	<u>(127,842)</u>
Total net position	<u><u>\$ (67,787)</u></u>

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, 2016**

	School Food Service Fund
OPERATING REVENUES	
Lunchroom sales	\$ 39,189
Total operating revenues	<u>39,189</u>
OPERATING EXPENSES	
Salaries and wages	272,055
Materials and supplies	268,941
Depreciation	10,735
Contract services	563
Total operating expenses	<u>552,294</u>
Operating income (loss)	<u>(513,105)</u>
NON-OPERATING REVENUES (EXPENSES)	
Federal grants	373,604
Donated commodities	43,310
State grants	4,021
State on-behalf payments	71,659
Loss on disposal of fixed assets	(977)
Interest income	24
Total non-operating revenues (expenses)	<u>491,641</u>
Change in net position	(21,464)
Net position, July 1, 2015	<u>(46,323)</u>
Net position, June 30, 2016	<u><u>\$ (67,787)</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, 2016**

	School Food Service Fund
Cash flows from operating activities	
Cash received from:	
Lunchroom sales	\$ 39,189
Cash paid to/for:	
Employees	(156,366)
Supplies	(216,677)
Contract services	(563)
	<hr/>
Net cash provided (used) by operating activities	(334,417)
	<hr/>
Cash flows from noncapital financing activities	
Government grants	377,625
	<hr/>
Net cash provided (used) by noncapital financing activities	377,625
	<hr/>
Cash flows from capital and related financing activities	
Purchase of capital assets	(4,885)
	<hr/>
Net cash provided (used) by capital and related financing activities	(4,885)
	<hr/>
Cash flows from investing activities	
Receipt of interest income	24
	<hr/>
Net cash provided (used) by investing activities	24
	<hr/>
Net increase (decrease) in cash and cash equivalents	38,347
Balances, beginning of year	136,771
	<hr/>
Balances, end of year	<u><u>\$ 175,118</u></u>

continued

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS, continued
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	School Food Service Fund
	<hr/>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (513,105)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	10,735
Donated commodities	43,310
State on-behalf payments	71,659
Change in assets and liabilities:	
Accounts receivable	-
Inventory	8,954
Deferred pension amounts	43,843
Compensated absences	187
	<hr/>
Net cash provided (used) by operating activities	<u><u>\$ (334,417)</u></u>
 Schedule of non-cash transactions:	
Donated commodities received from Federal government	\$ 43,310
On-behalf payments	71,659

See accompanying notes to financial statements

FIDUCIARY FUNDS FINANCIAL STATEMENTS

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 102,925
Total assets	102,925
LIABILITIES	
Due to student groups	102,925
Total liabilities	102,925
NET POSITION	\$ -

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016

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.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Board considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, state, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital elapses are reported as other financing sources.

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, 2016

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. 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, 2016

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, 2016

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, 2016, to finance the General Fund operations were \$.704 per \$100 valuation for real property, \$.704 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, 2016

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 the reported amounts of certain financial statement balances. Actual results could vary 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.

Investments

Investments are reported at fair value. Fair value is the amount reasonably expected to be received for an investment in a current sale between a willing buyer and a willing seller. Fixed income securities, real estate investment trusts (REITS), derivatives, and common and preferred stocks are valued based on published market prices and quotations from national security exchanges and security pricing services. International stocks are then adjusted to reflect the current exchange rate of the underlying currency. Investments for which no national exchanges or pricing services exist, such as private equity assets, are valued at fair value by the investment partnership based on the valuation methodology outlined in the partnership agreement. Real estate may be valued by the manager or independent appraisers. Comingled assets that are not traded on a national exchange are valued by the comingled manager. The District had no investments at June 30, 2016 that met these criteria.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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, 2016

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, 2016

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 10.

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 10.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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.

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, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Subsequent Events

Subsequent events have been evaluated through November 10, 2016, 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 \$1,438,358 and the bank balance was \$1,461,026. Of the District's bank balance, \$250,000 was covered by Federal Deposit Insurance, with the remaining balance of \$1,211,026 collateralized as discussed above.

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

Governmental funds	\$ 1,160,315
Proprietary funds	175,118
Fiduciary funds	<u>102,925</u>
Total	<u>\$ 1,438,358</u>

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 – CAPITAL ASSETS

Capital Asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
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	-	306,067	10,393,152
Technology equipment	1,087,369	96,288	158,601	1,025,056
General equipment	233,472	-	2,699	230,773
Vehicles	541,526	26,334	-	567,860
Total depreciable historical cost	<u>13,127,502</u>	<u>122,622</u>	<u>467,367</u>	<u>12,782,757</u>
Less: accumulated depreciation				
Land improvements	440,915	30,991	-	471,906
Building and improvements	4,088,787	283,049	122,427	4,249,409
Technology equipment	865,110	90,743	119,204	836,649
General equipment	172,428	9,266	2,534	179,160
Vehicles	470,839	19,605	-	490,444
Total accumulated depreciation	<u>6,038,079</u>	<u>433,654</u>	<u>244,165</u>	<u>6,227,568</u>
Total depreciable historical cost - net	<u>7,089,423</u>	<u>(311,032)</u>	<u>223,202</u>	<u>6,555,189</u>
Governmental activities capital assets - net	<u><u>\$ 7,584,537</u></u>	<u><u>\$ (311,032)</u></u>	<u><u>\$ 223,202</u></u>	<u><u>\$ 7,050,303</u></u>

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 – CAPITAL ASSETS, continued

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

Governmental Activities

Instruction	\$ 313,087
Support services:	
Student	8,550
Instructional staff	909
District administration	12,016
School administration	758
Business	75
Plant operation and maintenance	32,095
Student transportation	23,892
Community service	<u>42,272</u>
	<u><u>\$ 433,654</u></u>

	Balance			Balance
Business-Type Activities	July 1, 2015	Additions	Deductions	June 30, 2016
Capital assets depreciated:				
Buildings and improvements	\$ 2,010	\$ -	\$ -	\$ 2,010
Technology equipment	8,084	641	1,274	7,451
Food service equipment	<u>209,291</u>	<u>4,243</u>	<u>-</u>	<u>213,534</u>
Total depreciable historical cost	<u>219,385</u>	<u>4,884</u>	<u>1,274</u>	<u>222,995</u>
Less: accumulated depreciation				
Buildings and improvements	944	79	-	1,023
Technology equipment	5,335	772	297	5,810
Food service equipment	<u>146,224</u>	<u>9,883</u>	<u>-</u>	<u>156,107</u>
Total accumulated depreciation	<u>152,503</u>	<u>10,734</u>	<u>297</u>	<u>162,940</u>
Business-type activities capital assets - net	<u><u>\$ 66,882</u></u>	<u><u>\$ (5,850)</u></u>	<u><u>\$ 977</u></u>	<u><u>\$ 60,055</u></u>

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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:

Issue	Proceeds	Maturity Dates	Interest Rates	Balance June 30, 2016
Issue of 2006	\$ 2,235,000	2017	3.80% - 4.25%	\$ 110,000
Issue of 2014	2,750,000	2029	2.25%-6.40%	2,425,000
Issue of 2015	1,440,000	2026	2.00%	1,410,000

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.

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, 2016, 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	
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	139,111	45,306	160,889	23,918	369,224
2022-2026	755,631	167,252	839,369	68,198	1,830,450
2027-2030	704,746	43,646	190,254	6,423	945,069
	<u>\$ 2,184,834</u>	<u>\$ 453,366</u>	<u>\$ 1,793,128</u>	<u>\$ 224,466</u>	<u>\$ 4,655,794</u>

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 – LONG-TERM OBLIGATIONS, continued

The changes in outstanding debt are as follows:

	Balance July 1, 2015	New Issues/ Adjustments	Debt Payments/ Adjustments	Balance June 30, 2016	Amounts Due in One Year
Bonds payable:					
Revenue bonds	\$ 4,235,000	\$ -	\$ 290,000	\$ 3,945,000	\$ 296,403
Premium (discount)	(10,239)	-	(910)	(9,329)	-
Total bonds payable	4,224,761	-	289,090	3,935,671	296,403
Other liabilities:					
Annexation note payable	44,349	-	11,387	32,962	11,406
Capital leases	48,473	-	15,777	32,696	16,370
Compensated absences					
Governmental	98,950	-	31,056	67,894	-
Business-type	638	187	-	825	-
Total other liabilities	192,410	187	58,220	134,377	27,776
Total long-term obligations	<u>\$ 4,417,171</u>	<u>\$ 187</u>	<u>\$ 347,310</u>	<u>\$ 4,070,048</u>	<u>\$ 324,179</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 – CAPITAL LEASES

Leases meeting certain criteria are treated as financings and, according to generally accepted accounting principles, are recorded as capitalized leases. The District leases school buses and technology equipment pursuant to these types of leases and, as such, the cost is included with property and equipment. The related capital lease obligation reflects the present value of future lease payments less an interest amount implicit in the lease.

<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Vehicle	\$ 157,901	\$ 124,202
Technology	120,000	120,000

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 – CAPITAL LEASES, continued

Future minimum payments under the long-term capital lease obligation, together with the present value of the net minimum lease payments as of June 30, 2016 are, as follows.

Year Ending	KISTA 2007 lease	KISTA 2009 lease	Total payments
2017	\$ 7,263	\$ 10,320	\$ 17,583
2018	-	8,639	8,639
2019	-	8,631	8,631
Total minimum lease payments	\$ 7,263	\$ 27,590	\$ 34,853
Lease amount representing interest	263	1,894	2,157
Present value of net minimum lease payments	<u>\$ 7,000</u>	<u>\$ 25,696</u>	<u>\$ 32,696</u>

During the year ended June 30, 2016, the following changes occurred in the capital lease obligations:

	Balance July 1, 2015	Additions	Payments	Balance June 30, 2016	Due in One Year
KISTA 2007	\$ 13,695	\$ -	\$ 6,696	\$ 6,999	\$ 6,999
KISTA 2009	34,778	-	9,081	25,697	9,371
	<u>\$ 48,473</u>	<u>\$ -</u>	<u>\$ 15,777</u>	<u>\$ 32,696</u>	<u>\$ 16,370</u>

NOTE 6 – 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 \$67,894 and \$825 for business type activities.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 – FUND BALANCE REPORTING

Following is a summary of designations of fund balance at June 30, 2016:

	General Fund	Special Revenue Fund	Other Governmental Funds	Total
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted:				
SFCC escrow	-	-	-	-
Committed:				
Site-based carry forward	9,591	-	-	9,591
Assigned:				
Equipment purchase	31,909	-	-	31,909
Unassigned	1,098,190	-	-	1,098,190
	<u>\$ 1,139,690</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,139,690</u>

NOTE 8 – TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	KETS matching for technology	\$ 13,717
Building	Debit Service	Bond payments	203,932
Building	General	Capital expenditures	14,992
Capital Outlay	General	Capital purchases	58,500
			<u>\$ 291,141</u>

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 – 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, 2016:

Health insurance	\$ 636,166
Life insurance	1,136
Administrative fee	8,327
Health reimbursement account - HRA/dental/vision	54,600
	<u>700,229</u>
Federal reimbursements of health benefits	<u>(53,853)</u>
	646,376
Kentucky Teacher's Retirement System	417,826
Technology	47,197
KISTA	10,108
Debt Service	179,159
	<u><u>\$ 1,300,666</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	\$ 1,049,848
Debt Service Fund	179,160
Business-type activities	
Food Service Fund	71,658
	<u><u>\$ 1,300,666</u></u>

NOTE 10 – 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, 2016**

NOTE 10 – 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, 2016

NOTE 10 – 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, 2016

NOTE 10 – 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, three and three quarters percent (3.75%) is paid by member contributions, three quarters percent (.75%) from Commonwealth appropriation, and three percent (3.00%) 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, 2016, 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, 2016

NOTE 10 – PENSION PLANS, continued

District's proportionate share of the CERS net pension liability	\$ 1,525,392
Commonwealth's proportionate share of the KTRS net pension liability associated with the District.	<u>20,203,043</u>
	<u><u>\$ 21,728,435</u></u>

The net pension liability of the plan was measured as of June 30, 2015, 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, 2016, the District's proportion was .035480%.

For the year ended June 30, 2016, the District recognized pension expense of \$177,865 related to CERS and \$417,826 related to KTRS. The District also recognized revenue of \$417,826 for KTRS support provided by the Commonwealth. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>County Employees Retirement System (CERS)</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 10,142	\$ -
Change of assumptions	123,055	
Net differences between projected and actual earnings on pension plan investments	10,939	75,600
Changes in proportion and difference between District contributions and proportionate share of contributions	12,542	-
District contributions subsequent to the measurement date	<u>142,510</u>	<u>-</u>
Total	<u><u>\$ 299,188</u></u>	<u><u>\$ 75,600</u></u>

The amount of \$142,510 reported as deferred outflows of resources related to CERS 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, 2017. 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, 2016

NOTE 10 – PENSION PLANS, continued

	Deferred Outflows		Deferred Inflows		Effect on
	Measurement Period		Measurement Period		Pension Expense
	2015	2014	2015	2014	Total
2016	\$ 39,170	\$ -	\$ -	\$ (25,200)	\$ 13,970
2017	39,170	-	-	(25,200)	13,970
2018	39,170	-	-	(25,200)	13,970
2019	39,170	-	-	(25,200)	13,970
2020	39,170	-	-	-	39,170

Actuarial assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS	KTRS
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.00-8.20%
Investment rate of return, net of investment expense and inflation	7.50%	7.50%

For CERS, mortality rates for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) 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.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 – PENSION PLANS, continued

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 2008 through 2013, is outlined in a report dated April 30, 2014. 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. The target allocation and best estimates of arithmetical real rates of return for each major asset class are summarized in the following table.

Asset Class	Measurement Period	
	2015	
	Target Allocation	Long-term Expected Real Rate of Return
Combined equity	44.00%	5.40%
Combined fixed income	19.00%	1.50%
Real return (diversified inflation strategies)	10.00%	3.50%
Real estate	5.00%	4.50%
Absolute return (diversified hedge funds)	10.00%	4.25%
Private equity	10.00%	8.50%
Cash equivalent	2.00%	.25%
Total	100.00%	

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 – 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	Measurement Period	
	2015	
	Target Allocation	Long-term Expected Real Rate of Return
U.S equity	45.00%	6.40%
Non U.S. equity	17.00%	6.50%
Fixed income	24.00%	1.60%
High yield bonds	4.00%	3.10%
Real estate	4.00%	5.80%
Alternatives	4.00%	6.80%
Cash	2.00%	1.50%
Total	100.00%	

Discount rate – For CERS, the discount rate used to measure the total pension liability was 7.50%. 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 7.50%. 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 4.88%. 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 2039 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2038, and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments through 2038 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2038. 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, 2016

NOTE 10 – 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>
	6.50%	7.50%	8.50%
CERS			
District's proportionate share of net pension liability	\$ 1,947,454	\$ 1,525,392	\$ 1,164,081
KTRS			
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 11 – 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 \$20,399 to these plans during the year ended June 30, 2016.

NOTE 12 – CONTINGENCIES

Grant Programs

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, 2016

NOTE 12 – CONTINGENCIES, continued

KSBIT

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 13 – 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 14 – 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.

NOTE 15 – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2016.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 16 – UPCOMING PRONOUNCEMENTS

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, 2016

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
From local sources:				
Taxes				
Property	\$ 307,500	\$ 307,500	\$ 359,587	\$ 52,087
Motor vehicle	60,000	60,000	72,939	12,939
Utilities	90,000	100,000	115,804	15,804
Other	7,510	7,510	11,577	4,067
Earnings on investments	200	200	270	70
Other local revenues	3,500	3,500	9,290	5,790
Intergovernmental - state	3,213,000	3,213,000	3,286,905	73,905
Total revenues	3,681,710	3,691,710	3,856,372	164,662
EXPENDITURES				
Current:				
Instruction	2,364,917	2,356,499	2,212,645	143,854
Support services:				
Student	178,153	176,918	172,264	4,654
Instructional staff	115,687	123,372	92,134	31,238
District administration	589,296	768,274	256,536	511,738
School administration	337,988	348,842	335,773	13,069
Business	73,078	181,161	117,427	63,734
Plant operation and maintenance	542,169	551,883	480,054	71,829
Student transportation	153,650	160,699	117,512	43,187
Community services	51,526	51,526	58,142	(6,616)
Land/Site acquisition	31,000	41,000	-	41,000
Debt service	139,102	30,311	146,545	(116,234)
Total expenditures	4,576,566	4,790,485	3,989,032	801,453
Excess (deficit) of revenues over (under) expenditures	(894,856)	(1,098,775)	(132,660)	966,115
Other financing sources (uses)				
Proceeds from sale of fixed assets	-	-	93,016	93,016
Operating transfers in	-	-	73,492	73,492
Operating transfers out	(5,144)	(5,144)	(13,717)	(8,573)
Total other financing sources (uses)	(5,144)	(5,144)	152,791	157,935
Net change in fund balance	(900,000)	(1,103,919)	20,131	1,124,050
Fund balance, July 1, 2015	900,000	1,103,919	1,119,559	15,640
Fund balance, June 30, 2016	\$ -	\$ -	\$ 1,139,690	\$ 1,139,690

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amount</u>			Variance with Final Budget Favorable (Unfavorable)
REVENUES	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
From local sources:				
Other local revenues	\$ -	\$ -	\$ 6,708	\$ 6,708
Intergovernmental - state	82,397	301,731	278,268	(23,463)
Intergovernmental - federal	410,617	405,939	390,439	(15,500)
Total revenues	<u>493,014</u>	<u>707,670</u>	<u>675,415</u>	<u>(32,255)</u>
EXPENDITURES				
Current:				
Instruction	457,547	564,550	536,656	27,894
Support services:				
Instructional staff	30,323	55,574	48,799	6,775
Business	10,288	27,434	23,140	4,294
Student transportation	-	6,669	6,668	1
Community services	-	67,160	73,869	(6,709)
Total expenditures	<u>498,158</u>	<u>721,387</u>	<u>689,132</u>	<u>32,255</u>
Excess (deficit) of revenues over (under) expenditures	<u>(5,144)</u>	<u>(13,717)</u>	<u>(13,717)</u>	<u>-</u>
Other financing sources (uses)				
Operating transfers in	5,144	13,717	13,717	-
Total other financing sources (uses)	<u>5,144</u>	<u>13,717</u>	<u>13,717</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, July 1, 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2016	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

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	\$ 3,856,372
On-behalf payments	<u>1,049,848</u>
Total revenues - modified cash basis	<u><u>\$ 4,906,220</u></u>
Expenditures - budgetary basis	\$ 3,989,032
On-behalf payments	<u>1,049,848</u>
Total expenditures - modified cash basis	<u><u>\$ 5,038,880</u></u>

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

	Year Ended June 30, 2016	Year Ended June 30, 2015
District's proportion of the net pension liability	0.035480%	0.034870%
District's proportionate share of the net pension liability	\$ 1,525,392	\$ 1,156,200
State's proportionate share of the net pension liability associated with the District	<u>-</u>	<u>-</u>
Total	<u><u>\$ 1,525,392</u></u>	<u><u>\$ 1,156,200</u></u>
District's covered-employee payroll	\$ 835,348	\$ 792,477
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	182.61%	145.90%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	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 (CERS)

	Year Ended June 30, 2016	Year Ended June 30, 2015
Contractually required contribution	\$ 142,510	\$ 140,032
Contributions in relation to the contractually required contribution	<u>142,510</u>	<u>140,032</u>
Contribution deficiency	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 835,348	\$ 792,477
Contributions as a percentage of covered-employee payroll	17.06%	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 (KTRS)

	<u>Year Ended June 30, 2016</u>	<u>Year Ended June 30, 2015</u>
District's proportion of the net pension liability	0%	0%
District's proportionate share of the net pension liability	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	<u>20,203,043</u>	<u>18,144,400</u>
Total	<u><u>\$ 20,203,043</u></u>	<u><u>\$ 18,144,400</u></u>
District's covered-employee payroll	\$ 2,766,215	\$ 2,655,664
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	13.69%	14.64%
Plan fiduciary net position as a percentage of the total pension liability	42.49%	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 (KTRS)

	Year Ended June 30, 2016	Year Ended June 30, 2015
Contractually required contribution - On behalf payments - KDE	\$ 417,826	\$ 427,576
Contributions in relation to the contractually required contribution	<u>417,826</u>	<u>427,576</u>
Contribution deficiency	<u><u>-</u></u>	<u><u>-</u></u>
District's covered-employee payroll	\$ 2,766,215	\$ 2,655,664
Contributions as a percentage of covered-employee payroll	15.10%	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, 2016**

NOTE 1 – COUNTY EMPLOYEES RETIREMENT SYSTEM (NONHAZARDOUS)

Changes of benefit terms

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

- Tiered structure for benefit accrual rates
- New retirement eligibility requirements
- Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014

Changes of assumption

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

Changes of benefit terms – None.

Changes of assumptions – None.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLANS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 2 – KENTUCKY TEACHERS' RETIREMENT SYSTEM

Changes of benefit terms – None

Changes of assumptions

In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rate of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

OTHER SUPPLEMENTARY INFORMATION

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	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>
Fund Balances			
Nonspendable	-	-	-
Spendable			
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<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, 2016**

	FSPK Fund	SEEK Capital Outlay Fund	Total Nonmajor Governmental Funds
REVENUES			
From local sources:			
Taxes			
Property	\$ 34,442	\$ -	\$ 34,442
Intergovernmental - state	184,483	58,499	242,982
Total revenues	218,925	58,499	277,424
EXPENDITURES			
Plant operation and maintenance	-	-	-
Building acquisition and construction	-	-	-
Total expenditures	-	-	-
Excess (deficit) of revenues over (under) expenditures	218,925	58,499	277,424
Other financing sources (uses)			
Operating transfers out	(218,925)	(58,499)	(277,424)
Total other financing sources (uses)	(218,925)	(58,499)	(277,424)
Net change in fund balances	-	-	-
Fund balances, July 1, 2015	-	-	-
Fund balances, June 30, 2016	\$ -	\$ -	\$ -

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS
ALL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Cash Balance <u>July 1, 2015</u>	<u>Receipts</u>	<u>Disbursements</u>	Cash Balance <u>June 30, 2016</u>	<u>Accounts Receivable</u>	<u>Accounts Payable</u>	<u>Fund Balance June 30, 2016</u>
Dawson Springs Junior and Senior High School	\$ 81,790	\$ 207,170	\$ 196,790	\$ 92,170	\$ -	\$ -	\$ 92,170
Dawson Springs Elementary	<u>9,972</u>	<u>20,854</u>	<u>20,071</u>	<u>10,755</u>	<u>-</u>	<u>-</u>	<u>10,755</u>
Totals	<u>\$ 91,762</u>	<u>\$ 228,024</u>	<u>\$ 216,861</u>	<u>\$ 102,925</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,925</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, 2016

	Cash Balance July 1, 2015	Receipts	Disbursements	Cash Balance June 30, 2016	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2016
Academic	\$ 9	\$ 290	\$ 278	\$ 21	\$ -	\$ -	\$ 21
Annual Staff	6,340	7,665	5,823	8,182	-	-	8,182
Art Club	1,047	-	244	803	-	-	803
Athletic	15,206	32,713	34,868	13,051	-	-	13,051
Athletic banners	-	900	-	900	-	-	900
Back to school	2,425	411	2,188	648	-	-	648
Baseball boosters	243	4,450	3,245	1,448	-	-	1,448
Basketball concessions	8,734	12,507	10,394	10,847	-	-	10,847
BETA Club	1,100	2,370	2,649	821	-	-	821
Boys basketball	936	6,974	5,893	2,017	-	-	2,017
Boys soccer	2,670	6,524	7,463	1,731	-	-	1,731
Cheerleading - HS	641	3,748	3,822	567	-	-	567
Project Prom	4,081	3,609	3,422	4,268	-	-	4,268
Class of 2016	1,171	48,866	50,037	-	-	-	-
Class of 2017	1,096	4,038	3,030	2,104	-	-	2,104
Class of 2018	589	140	-	729	-	-	729
Class of 2019	625	83	-	708	-	-	708
Class of 2020	179	114	-	293	-	-	293
Class of 2021	-	280	-	280	-	-	280
Cokes - HS	749	1,015	560	1,204	-	-	1,204
Cross Country	287	7,566	7,099	754	-	-	754
Drama Club	22	-	-	22	-	-	22
Earth Day	102	-	29	73	-	-	73
Education Fund	2,084	6,555	3,441	5,198	-	-	5,198
FBLA	2,063	25	730	1,358	-	-	1,358
FCA	31	1,000	745	286	-	-	286
Girls basketball	2,184	2,635	2,893	1,926	-	-	1,926

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, 2016

	Cash Balance July 1, 2015	Receipts	Disbursements	Cash Balance June 30, 2016	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2016
Girls soccer	1,738	100	1,838	-	-	-	-
Golf	2,331	3,758	5,433	656	-	-	656
Library (Media Center)	910	178	17	1,071	-	-	1,071
Jr. Beta Club	44	397	426	15	-	-	15
Jr. Hi Academic	870	2,392	2,297	965	-	-	965
MS boys basketball	405	756	1,050	111	-	-	111
MS cheerleaders	1,921	7,616	7,398	2,139	-	-	2,139
MS girls basketball	3,101	718	1,900	1,919	-	-	1,919
Music	7,272	22,035	15,393	13,914	-	-	13,914
Office Fund	1,240	1,615	548	2,307	-	-	2,307
Pep Club	-	811	602	209	-	-	209
Softball	2,078	7,702	6,940	2,840	-	-	2,840
Spanish Club	21	-	-	21	-	-	21
Student Awards	263	135	56	342	-	-	342
Track	1,205	5,506	5,257	1,454	-	-	1,454
Math Club	235	-	-	235	-	-	235
Bass Fishing	322	1,980	1,707	595	-	-	595
Mascot Fund	1,110	1,107	2,217	-	-	-	-
Student Ambassadors	153	-	120	33	-	-	33
Senior Special Account	-	930	930	-	-	-	-
Soccer Concessions	1,957	4,581	3,433	3,105	-	-	3,105
St. Jude's	-	161	161	-	-	-	-
	81,790	216,956	206,576	92,170	-	-	92,170
Less: Interfund Transfers	-	(9,786)	(9,786)	-	-	-	-
Totals	<u>\$ 81,790</u>	<u>\$ 207,170</u>	<u>\$ 196,790</u>	<u>\$ 92,170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,170</u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

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, Part A Cluster				
Title I Grants to Local Education Agencies	84.010	310000215	\$ 137,173	
		310000214	<u>78,266</u>	\$ 215,439
Career and Technical Education -				
Basic Grants to States	84.048	371000215		3,295
Special Education Cluster				
Special Education - Grants to States	84.027	381000215	132,606	
		381000214	60	
Special Education Preschool Grants	84.173	380000215	<u>10,239</u>	142,905
Improving Teacher Quality State Grants	84.367	323000215	1,916	
		323000214	<u>21,523</u>	23,439
Rural School	84.358	314000215	1,456	
		314000214	<u>3,905</u>	5,361
Total U. S. Department of Education				<u>390,439</u>
U.S. Department of Agriculture				
Passed through State Department of Education:				
Child Nutrition Cluster				
School Breakfast Program	10.553	7760005-16	90,395	
		7760005-15	<u>28,083</u>	118,478
National School Lunch Program	10.555	7750002-16	196,739	
		7750002-15	58,387	
Noncash Assistance - Commodities (Note 4)		Fund 51	<u>43,310</u>	298,436
Total U.S. Department of Agriculture				<u>416,914</u>
Total Expenditures of Federal Awards				<u>\$ 807,353</u>

See notes to Schedule of Expenditures of Federal Awards

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

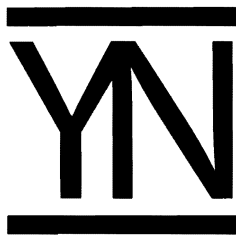
NOTE 3 – SUBRECIPIENTS

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



YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

**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, 2016, 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 10, 2016.

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 2016-001).

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*.

We noted certain matters that we reported to management of Dawson Springs Independent School District in a separate report dated November 10, 2016.

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

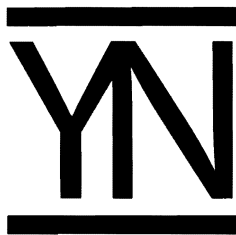
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in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

York, Neel & Associates, LLP

A handwritten signature in black ink that reads "York, Neel & Associates LLP". The signature is written in a cursive, flowing style.

Certified Public Accountants
Hopkinsville, Kentucky

November 10, 2016



YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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 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, 2016. Dawson Springs Independent School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*. Those standards and Uniform Guidance 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, 2016.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

York, Neel & Associates, LLP



Certified Public Accountants
Hopkinsville, Kentucky

November 10, 2016

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiency(ies) identified? ☒ yes ☐ none reported

Noncompliance material to financial
statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiency(ies) identified? ☐ yes ☒ none reported

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

Any audit findings disclosed that are required
to be reported in accordance with 2 CFR
section 200.516(a) ☐ yes ☒ no

Identification of major federal programs:

<u>Program Title</u>	<u>CFDA Number</u>
Title I Grants to Local Education Agencies	84.010

Dollar threshold to distinguish
between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee? ☒ yes ☐ no

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINDINGS – FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCY

2016-001 – Financial Reporting

Condition – There was inadequate design of internal controls over the preparation of the financial statements of the District.

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 – There was an increased risk that controls in place might not prevent, or detect and correct, misstatements in the financial statements.

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 – Management outsourced the preparation of their financial statements and the related notes to York, Neel & Associates, LLP. Management maintained responsibility for the financial statements and related notes and for the establishment of controls over the financial reporting process and acknowledged that outsourcing preparation of the financial statements and related notes does not relieve management of the responsibility for the financial statements. Management provided oversight for the financial statement preparation service by designating an individual within senior managements who possesses suitable technical skill, knowledge, and experience sufficient to (a) understand the financial statement preparation service enough to be able to provide general direction for the service; (b) understand the key issues the auditor identifies; (c) make any required management decisions; and (d) evaluate the adequacy of, and accept responsibility for, the results of the auditor's work .

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None reported

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

FINDINGS – FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCY

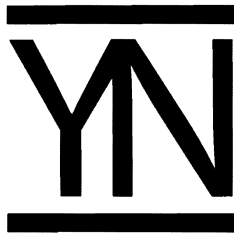
2015-001 – Financial Reporting

Condition – There was inadequate design of internal controls over the preparation of the financial statements of the District.

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, 2016.

MANAGEMENT COMMENTS FOR AUDIT



YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

November 10, 2016

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, 2016, 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 10, 2016, contains our report on the District's internal control. This letter does not affect our report dated November 10, 2016 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 78 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,

York, Neel & Associates, LLP

Certified Public Accountants
Hopkinsville, Kentucky

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

DAWSON SPRINGS ELEMENTARY

Finding 1 – Cash receipts testing revealed several instances of receipts not being remitted to the treasurer in a timely manner.

Recommendation – All money collected by a teacher/sponsor should be given to the school treasurer on the day collected.

Response – The school will comply with the recommendation.

Finding 2 – Disbursements testing revealed 3 checks issued without purchase orders.

Recommendation – The purchase order should be prepared and approved by the sponsor and principal before the payment is obligated.

Response – The school will comply with the recommendation.

Finding 3 – For concession sales, Inventory Control Worksheets were completed for only 5 months of the year and Sales Collection Forms were not signed and dated by the treasurer.

Recommendation – Inventory Control Worksheets should be completed monthly and Sales Collection Forms should be properly signed and dated by the preparer and treasurer.

Response – The school will comply with the recommendation.

DAWSON SPRINGS JR/SR HIGH SCHOOL

Finding 1 – Cash receipts testing revealed 7 out of 15 multiple receipt forms were signed by the treasurer as person remitting money.

Recommendation – The person turning in the money should sign the multiple receipt form in addition to the treasurer who receives the money. The treasurer cannot turn in and also receive the money.

Response – The school will comply with the recommendation.

Finding 2 – Fundraising testing revealed that Fundraiser Worksheets were not completed and turned in to the principal timely.

Recommendation – The activity sponsor should complete the Fundraiser Worksheet and forward the report to the principal for review and filing within one week of the completion of the fundraising period or event.

Response – The school will comply with the recommendation.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

DAWSON SPRINGS JR/SR HIGH SCHOOL, continued

Finding 3 – Ticket Sales testing revealed that the ticket seller and ticket taker are the same person.

Recommendation – The ticket seller and ticket taker should be two separate people.

Response – The school will comply with the recommendation.

Finding 4 – Ticket Sales testing revealed that tickets for the Pancake Breakfast were not pre-numbered.

Recommendation – Pre-numbered tickets should be used for all events for which admission is charged.

Response – The school will comply with the recommendation.

Finding 5 – Review of accounts activity revealed 3 club accounts that had no activity during the year.

Recommendation – For accounts that had no activity during the preceding 12 months, if the student organization did not designate in writing how the unobligated remaining funds should be disposed, the funds should be transferred to the school activity general account and used for the general benefit of all students.

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, 2016**

DAWSON SPRINGS JR/SR HIGH SCHOOL

Finding 1 – Cash receipts testing of a randomly chosen sample revealed several instances of the Multiple Receipt Form not being signed by the student remitting money.

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

Current year - The finding was not repeated.

Finding 2 – Cash disbursements testing of a randomly chosen sample revealed instances in which only one check signer signed the check.

Recommendation – All checks written should have two signatures, the school treasurer and principal or principal's designee.

Current year - The finding was not repeated.

Finding 3 – Numerous purchase orders were dated after the invoice date and Inventory Control Worksheets were 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 year - The finding was not repeated.