

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2013**

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
TABLE OF CONTENTS**

Independent Auditors' Report	1
Management's Discussion and Analysis	4
<b>Government - Wide Financial Statements</b>	
Statement of Net Position	13
Statement of Activities	14
<b>Governmental Funds Financial Statements</b>	
Balance Sheet – Governmental Funds	15
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
<b>Proprietary Fund Financial Statements</b>	
Statement of Fund Net Position – Proprietary Fund	19
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund	20
Statement of Cash Flows – Proprietary Fund	21
<b>Fiduciary Funds Financial Statements</b>	
Statement of Fiduciary Assets and Liabilities	23
<b>Notes to Financial Statements</b>	24
<b>Required Supplementary Information</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	49
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue	50

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
TABLE OF CONTENTS**

Notes to Required Supplementary Information	51
<b>Supplementary Information</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	52
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	53
Combining Statement of Receipts, Disbursements and Due to Student Groups – All Activity Funds	54
Statement of Receipts, Disbursements and Due to Student Groups – School Activity Fund – Junior and Senior High School	55
Schedule of Expenditures of Federal Awards	57
Notes to the Schedule of Expenditures of Federal Awards	58
Board Members and Administrative Personnel	59
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	60
Independent Auditors’ Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	62
Schedule of Findings and Questioned Costs	64
Summary Schedule of Prior Year Audit Findings	66
Independent Auditors’ Transmittal Letter for Management Letter Comments	67
Management Letter Comments	68
Summary Schedule of Prior Year Management Letter Comments	70

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



## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Dawson Springs Independent School District as of and for the year ended June 30, 2013, 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 *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Dawson Springs Independent School District as of June 30, 2013, 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 and budgetary comparison information on pages 4–12 and 49–50 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 Dawson Springs Independent School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

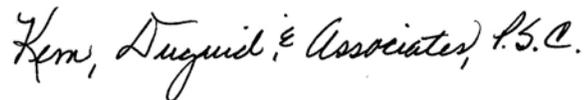
The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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 and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, 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.

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

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

Certified Public Accountants  
Hopkinsville, Kentucky

November 12, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

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, 2013. 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 \$1,377,376, as compared with the beginning cash balance of \$1,421,107. The ending cash balance consisted of General Fund of \$1,220,363, Special Revenue Fund of (\$7,919), Food Service Fund of \$92,905, and School Activity Funds of \$72,027.
- Total government-wide net position decreased by \$185,609 for the fiscal year ended June 30, 2013. Total long-term obligations had a net increase of \$16,913, while the unrestricted net assets increased \$47,055 and restricted assets decreased \$8,468.
- The General Fund had \$4,856,082 in revenues, which primarily consisted of the state program (SEEK), 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 \$4,874,850. Excluding interfund transfers, there were \$4,858,354 in General Fund expenditures. This compares to \$5,152,940 in General Fund expenditures for the prior year.
- The financial statements reflect a total of \$934,085 of revenues and aid from the state for payments made by the state on-behalf of district employees for retirement contributions, health insurance 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. All of the current year’s revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

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, 2013**

- *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 exceeded liabilities by \$4,965,639 as of June 30, 2013.

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, 2013**

Following is a summary of the District’s government-wide net position for the fiscal years ended June 30, 2013 and 2012:

**Net Position for the Fiscal Years Ended June 30, 2013 and 2012**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current assets and other assets	\$ 1,430,547	\$ 1,555,161	\$ 134,013	\$ 150,155	\$ 1,564,560	\$ 1,705,316
Capital assets	8,312,382	8,728,812	68,376	81,297	8,380,758	8,810,109
<b>Total assets</b>	<u>9,742,929</u>	<u>10,283,973</u>	<u>202,389</u>	<u>231,452</u>	<u>9,945,318</u>	<u>10,515,425</u>
Current liabilities	159,838	566,249	5,000	-	164,838	566,249
Noncurrent obligations	4,814,841	4,792,928	-	5,000	4,814,841	4,797,928
<b>Total liabilities</b>	<u>4,974,679</u>	<u>5,359,177</u>	<u>5,000</u>	<u>5,000</u>	<u>4,979,679</u>	<u>5,364,177</u>
Net position						
Investment in capital assets, net of related debt	3,619,153	3,830,428	68,376	81,297	3,687,529	3,911,725
Restricted	-	8,468	-	-	-	8,468
Unrestricted	1,149,097	1,085,900	129,013	145,155	1,278,110	1,231,055
<b>Total net position</b>	<u>\$ 4,768,250</u>	<u>\$ 4,924,796</u>	<u>\$ 197,389</u>	<u>\$ 226,452</u>	<u>\$ 4,965,639</u>	<u>\$ 5,151,248</u>

**Change in net position.** The District’s governmental activities net position decreased by \$156,546 net of the effect of GASB 65 \$(42,285) and business-type activities net position decreased \$29,063.

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. 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, 2013**

Following is a summary of schedule of changes in the District's net position for the years ended June 30, 2013 and 2012:

**Changes in Net Position for the Fiscal Years Ended June 30, 2013 and 2012**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Revenues:</b>						
Program revenues:						
Operating grants and contributions	\$ 5,076,068	\$ 5,107,614	\$ 331,510	\$ 358,530	\$ 5,407,578	\$ 5,466,144
Capital grants and contributions	209,460	512,703	-	-	209,460	512,703
Charges for services	-	5,233	54,990	108,724	54,990	113,957
General revenues:						
Property taxes	408,925	360,703	-	-	408,925	360,703
Other taxes	184,918	188,255	-	-	184,918	188,255
Investment earnings	727	864	52	42	779	906
State aid	60,955	-	77,572	-	138,527	-
Other	(4,125)	48,074	(3,335)	-	(7,460)	48,074
<b>Total revenues</b>	<u>5,936,928</u>	<u>6,223,446</u>	<u>460,789</u>	<u>467,296</u>	<u>6,397,717</u>	<u>6,690,742</u>
<b>Expenses:</b>						
Instruction	3,719,347	3,984,924	-	-	3,719,347	3,984,924
Student support services:	200,558	214,483	-	-	200,558	214,483
Instructional support	196,310	203,255	-	-	196,310	203,255
District administration	285,246	390,318	-	-	285,246	390,318
School administration	344,344	327,199	-	-	344,344	327,199
Business support	218,953	207,472	-	-	218,953	207,472
Plant operations	468,339	493,971	-	-	468,339	493,971
Student transportaion	203,234	168,727	-	-	203,234	168,727
Community services	167,468	168,869	-	-	167,468	168,869
Facilities acquisition	-	9,737	-	-	-	9,737
Interest on long-term debt	236,703	257,737	-	-	236,703	257,737
Amortization	-	2,962	-	-	-	2,962
Other	10,687	-	-	-	10,687	-
Food service	-	-	489,852	455,140	489,852	455,140
<b>Total expenses</b>	<u>6,051,189</u>	<u>6,429,654</u>	<u>489,852</u>	<u>455,140</u>	<u>6,541,041</u>	<u>6,884,794</u>
<b>Increase (Decrease) in net position</b>	<u>\$ (114,261)</u>	<u>\$ (206,208)</u>	<u>\$ (29,063)</u>	<u>\$ 12,156</u>	<u>\$ (143,324)</u>	<u>\$ (194,052)</u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**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 \$1,312,854 an decrease of \$26,168 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, 2013 and 2012.

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 Districts 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, 2013**

Following is a summary of fund balances for the fiscal years ended June 30, 2013 and 2012:

**Governmental Funds Balances as of June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
<b>Governmental Funds</b>			
General Fund	\$ 1,270,854	\$ 1,235,578	\$ 35,276
Special Revenue Fund	-	7,628	(7,628)
Building Fund	-	840	(840)
Capital Outlay	42,000	42,640	(640)
Debt Service Fund	-	-	-
<b>Total governmental funds</b>	<u>\$ 1,312,854</u>	<u>\$ 1,286,686</u>	<u>\$ 26,168</u>
<b>Proprietary Funds</b>			
Food Service Fund	<u>\$ 197,389</u>	<u>\$ 226,452</u>	<u>\$ (29,063)</u>
<b>Fiduciary Funds</b>			
School Activity Funds	<u>\$ 72,027</u>	<u>\$ 61,413</u>	<u>\$ 10,614</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 \$1,194,406, while total fund balance reached \$1,270,854. 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 24.84% of total General Fund expenditures, while total fund balance represents 26.43% of that same amount.

During the current fiscal year, the total fund balance of the General Fund decreased by \$18,768. Revenues and transfers totaling \$4,856,082 decreased by \$94,902, while expenditures and transfers totaling \$4,808,354 decreased by \$344,586.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

In accordance with directives from the Kentucky Department of Education (DOE) and Kentucky law, the District’s funds budgets are prepared to account for most transactions on a cash receipt/cash disbursement/encumbrance basis. The DOE requires a budget in which any budgeted remaining fund balance is shown as a contingency expense and any amounts being accumulated for other purposes ultimately shown as unspent or over-budgeted expenditures. By law, the budget must have a minimum 2% contingency. The District adopted a General Fund budget with a contingency of (\$544,676) or 11.28%. 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 \$860,459 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, 2013, net of interfund transfers, beginning balances, and on-behalf payments, were \$3,995,623; compared to the total budgeted revenues of \$3,662,264.
- The District’s total expenditures for General Fund activities for the fiscal year ended June 30, 2013, net of interfund transfers and on-behalf payments, were \$3,947,895; compared to the total budgeted expenditures, net of contingency (\$544,676), of \$4,270,354
- The fund balance at the end of the 2013 fiscal year for all Governmental Funds was \$1,220,854 compared to \$1,235,578 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 or debt service. The State contributes to Fund 310.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets** – At June 30, 2013, the District had \$8,380,758 invested in capital assets net of depreciation: historical costs totaled \$13,771,674 with accumulated depreciation totaling \$5,390,916. 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 \$134,507. Depreciation charged to expense during the year totaled \$495,131, 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, 2013**

Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2013 and 2012.

**Net Capital Assets for the Fiscal Years Ended June 30, 2013 and 2012**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 490,545	\$ 490,545	\$ -	\$ -	\$ 490,545	\$ 490,545
Land improvements	186,983	218,228	-	-	186,983	218,228
Construction in progress	-	-	-	-	-	-
Building and improvements	7,182,651	7,468,760	1,226	1,306	7,183,877	7,470,066
Technology equipment	308,896	331,893	1,104	1,588	310,000	333,481
General equipment	65,366	73,895	-	-	65,366	73,895
Vehicles	77,941	103,206	-	-	77,941	103,206
Food service equipment	-	-	66,046	78,403	66,046	78,403
<b>Total</b>	<u>\$ 8,312,382</u>	<u>\$ 8,686,527</u>	<u>\$ 68,376</u>	<u>\$ 81,297</u>	<u>\$ 8,380,758</u>	<u>\$ 8,767,824</u>

**Long-Term Debt** – The District’s long-term general obligation bonds outstanding at June 30, 2013 were \$4,545,000. 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 \$1,994,894 of the bonds leaving the District to pay \$2,550,106. 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 \$67,185.

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, 2013**

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,212,444	\$ 92,905	\$ 1,305,349
Accounts receivable:			
Taxes	-	-	-
Other	20,174	22,220	42,394
Intergovernmental - indirect federal	52,099	-	52,099
Prepaid expense	92,751		92,751
Inventory	-	18,888	18,888
Bond discount	53,079	-	53,079
Capital assets:			
Non-depreciable	490,545	-	490,545
Depreciable (net)	7,821,837	68,376	7,890,213
 Total assets	 <u>9,742,929</u>	 <u>202,389</u>	 <u>9,945,318</u>
<b>LIABILITIES</b>			
Accounts payable	-	5,000	5,000
Accrued payroll and related expenses	20,434	-	20,434
Unearned revenue	44,180	-	44,180
Interest payable	95,224	-	95,224
Long-term obligations:			
Portion due or payable within one year:			
Bonds payable	251,391	-	251,391
Capital lease obligations	15,989	-	15,989
Accrued sick leave	-	-	-
Portion due or payable after one year:			
Bonds payable	4,360,794	-	4,360,794
Capital lease obligations	65,055	-	65,055
Accrued sick leave	121,612	-	121,612
 Total liabilities	 <u>4,974,679</u>	 <u>5,000</u>	 <u>4,979,679</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	3,619,153	68,376	3,687,529
Unrestricted	1,149,097	129,013	1,278,110
 Total net position	 <u>\$ 4,768,250</u>	 <u>\$ 197,389</u>	 <u>\$ 4,965,639</u>

See accompanying notes to financial statements

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>Functions/Programs</b>	Program Revenues			Net (Expenses) Revenues	
	Expenses	Charges for Services	Operating Grants & Contributions		Capital Grants & Contributions
<b>Governmental Activities:</b>					
<b>Current:</b>					
Instruction	\$ 3,719,347	\$ -	\$ 3,879,916	\$ -	\$ 160,569
Support services:					
Student	200,558	-	6,693	-	(193,865)
Instructional staff	196,310	-	406,091	-	209,781
District administration	285,246	-	17,254	-	(267,992)
School administration	344,344	-	51,069	-	(293,275)
Business	218,953	-	141,378	-	(77,575)
Plant operation and maintenance	468,339	-	32,011	-	(436,328)
Student transportation	203,234	-	33,961	-	(169,273)
Community service activities	167,468	-	507,695	-	340,227
Other	10,687	-	-	-	(10,687)
Interest on long-term debt	236,703	-	-	209,460	(27,243)
<b>Total governmental activities</b>	<b>6,051,189</b>	<b>-</b>	<b>5,076,068</b>	<b>209,460</b>	<b>(765,661)</b>
<b>Business-Type Activities:</b>					
Food service	489,852	54,990	331,510	-	(103,352)
<b>Total business-type activities</b>	<b>489,852</b>	<b>54,990</b>	<b>331,510</b>	<b>-</b>	<b>(103,352)</b>
<b>Total activities</b>	<b>\$ 6,541,041</b>	<b>\$ 54,990</b>	<b>\$ 5,407,578</b>	<b>209,460</b>	<b>\$ (869,013)</b>
			<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Changes in Net Position</b>					
Net revenues (expenses)			\$ (765,661)	\$ (103,352)	\$ (869,013)
<b>General Revenues</b>					
Taxes:					
Property			408,925	-	408,925
Motor vehicle			69,002	-	69,002
Utilities			105,652	-	105,652
Other			10,264	-	10,264
Investment earnings			727	52	779
State aid			60,955	77,572	138,527
Gain (loss) on sale of fixed assets			(23,107)	(3,335)	(26,442)
Miscellaneous			18,982	-	18,982
<b>Total general revenues</b>			<b>651,400</b>	<b>74,289</b>	<b>725,689</b>
<b>Change in net position</b>			<b>(114,261)</b>	<b>(29,063)</b>	<b>(143,324)</b>
<b>Net position, July 1, 2012</b>			<b>4,924,796</b>	<b>226,452</b>	<b>5,151,248</b>
<b>Effect of Adoption of GASB 65</b>			<b>(42,285)</b>	<b>-</b>	<b>(42,285)</b>
<b>Net position, July 1, 2012, restated</b>			<b>4,882,511</b>	<b>226,452</b>	<b>5,108,963</b>
<b>Net position, June 30, 2013</b>			<b>\$ 4,768,250</b>	<b>\$ 197,389</b>	<b>\$ 4,965,639</b>

See accompanying notes to financial statements

**GOVERNMENTAL FUNDS FINANCIAL STATEMENTS**

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,220,363	\$ (7,919)	\$ -	\$ 1,212,444
Accounts receivable:				
Taxes	-	-	-	-
Other	20,174	-	-	20,174
Intergovernmental - indirect federal	-	52,099	-	52,099
Prepaid expense	50,751	-	42,000	92,751
<b>Total assets</b>	<b><u>\$ 1,291,288</u></b>	<b><u>\$ 44,180</u></b>	<b><u>\$ 42,000</u></b>	<b><u>\$ 1,377,468</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll and related expenses	20,434	-	-	20,434
Accrued sick leave	-	-	-	-
Unearned revenue	-	44,180	-	44,180
<b>Total liabilities</b>	<b><u>20,434</u></b>	<b><u>44,180</u></b>	<b><u>-</u></b>	<b><u>64,614</u></b>
Fund balances				
Nonspendable				
Prepaid expenses	50,751	-	42,000	92,751
Spendable:				
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	25,697	-	-	25,697
Unassigned	1,194,406	-	-	1,194,406
<b>Total fund balances</b>	<b><u>1,270,854</u></b>	<b><u>-</u></b>	<b><u>42,000</u></b>	<b><u>1,312,854</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 1,291,288</u></b>	<b><u>\$ 44,180</u></b>	<b><u>\$ 42,000</u></b>	<b><u>\$ 1,377,468</u></b>

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, 2013**

Total fund balance per fund financial statements		\$ 1,312,854
Amounts reported for governmental activities in the statement of net assets 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 \$13,549,995, and the accumulated depreciation is \$5,237,613.		8,312,382
Certain assets are not reported in this fund financial statement because they are not available to pay current period expenditures, but they are reported in the statement of net position		53,079
Long-term liabilities, including interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:		
Bond obligations	(4,612,185)	
Lease obligations	(81,044)	
Interest payable on bonds	(95,224)	
Noncurrent portion of accumulated sick leave	(121,612)	(4,910,065)
Net position for governmental activities		\$ 4,768,250

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, 2013**

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
From local sources:				
Taxes				
Property	\$ 374,870	\$ -	\$ 34,055	\$ 408,925
Motor vehicle	69,002	-	-	69,002
Utilities	105,652	-	-	105,652
Other	10,264	-	-	10,264
Earnings on investments	727	-	-	727
Other local revenues	18,169	813	-	18,982
Intergovernmental - state	4,277,398	191,574	460,970	4,929,942
Intergovernmental - federal	-	421,467	56,863	478,330
<b>Total revenues</b>	<u>4,856,082</u>	<u>613,854</u>	<u>551,888</u>	<u>6,021,824</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	3,071,098	474,935	-	3,546,033
Support services:				
Student	168,065	-	-	168,065
Instructional staff	134,854	59,193	-	194,047
District administration	281,760	-	-	281,760
School administration	354,127	-	-	354,127
Business	197,913	20,953	-	218,866
Plant operations and maintenance	374,864	-	62,384	437,248
Student transportation	171,577	3,610	-	175,187
Community service activities	49,003	75,243	-	124,246
Building acquisition and construction	5,093	-	5,594	10,687
Architectural/engineering	-	-	-	-
Debt service	-	-	485,390	485,390
<b>Total expenditures</b>	<u>4,808,354</u>	<u>633,934</u>	<u>553,368</u>	<u>5,995,656</u>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<u>47,728</u>	<u>(20,080)</u>	<u>(1,480)</u>	<u>26,168</u>
<b>Other financing sources (uses)</b>				
Proceeds from disposal of fixed assets	-	-	-	-
Operating transfers in	-	12,452	219,067	231,519
Operating transfers out	(12,452)	-	(219,067)	(231,519)
Total other financing sources (uses)	<u>(12,452)</u>	<u>12,452</u>	<u>-</u>	<u>-</u>
<b>Net changes in fund balances</b>	35,276	(7,628)	(1,480)	26,168
<b>Fund balances, July 1, 2012</b>	<u>1,235,578</u>	<u>7,628</u>	<u>43,480</u>	<u>1,286,686</u>
<b>Fund balances, June 30, 2013</b>	<u>\$ 1,270,854</u>	<u>\$ -</u>	<u>\$ 42,000</u>	<u>\$ 1,312,854</u>

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, 2013**

Net change in fund balance - Total governmental funds \$ 26,168

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	134,507	
Depreciation expense	(485,545)	
Net capital outlay	(351,038)	(351,038)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, CIP closures/transfers) is to decrease net position (23,106)

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

Bond repayments	246,340	
KISTA lease payments	15,613	
	261,953	261,953

Certain accruals do not require the use of current resources and, therefore, are not reported as revenue in the governmental fund statements. (61,790) (61,790)

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:

Accumulated sick leave-noncurrent portion	31,205	
Amortization of bond discount	(3,720)	
Accrued interest on bonds	6,067	
Net decrease in expenditures	33,552	33,552

Change in net position of governmental activities \$ (114,261)

See accompanying notes to financial statements

**PROPRIETARY FUND FINANCIAL STATEMENTS**

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2013**

	School Food Service Fund
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 92,905
Accounts receivable	22,220
Inventory	18,888
Total current assets	134,013
Noncurrent assets	
Capital assets	221,680
Less: accumulated depreciation	(153,304)
Total noncurrent assets	68,376
Total assets	202,389
<b>LIABILITIES</b>	
Current liabilities	
Accrued salaries and benefits	5,000
Total current liabilities	5,000
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	68,376
Unrestricted	129,013
Total net position	\$ 197,389

See accompanying notes to financial statements

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	School Food Service Fund
<b>OPERATING REVENUES</b>	
Lunchroom sales	\$ 54,990
Other revenue	-
	-
<b>Total operating revenues</b>	54,990
 <b>OPERATING EXPENSES</b>	
Salaries and wages	246,746
Materials and supplies	215,807
Depreciation	9,587
Contract services	17,712
	17,712
<b>Total operating expenses</b>	489,852
<b>Operating income (loss)</b>	(434,862)
 <b>NON-OPERATING REVENUES (EXPENSES)</b>	
Federal grants	309,240
Donated commodities	22,270
State grants	3,946
State on-behalf payments	73,626
Loss on disposal of fixed assets	(3,335)
Interest income	52
	52
<b>Total non-operating revenues (expenses)</b>	405,799
<b>Change in net position</b>	(29,063)
<b>Net position, July 1, 2012</b>	226,452
<b>Net position, June 30, 2013</b>	\$ 197,389

See accompanying notes to financial statements

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>School Food Service Fund</u>
<b>Cash flows from operating activities</b>	
Cash received from:	
Lunchroom sales	\$ 32,770
Other activities	-
Cash paid to/for:	
Employees	(173,120)
Supplies	(178,678)
Contract services	(17,712)
	<u>                    </u>
<b>Net cash provided (used) by operating activities</b>	<u>(336,740)</u>
 <b>Cash flows from noncapital financing activities</b>	
Transfers in (out)	-
Government grants	313,187
	<u>                    </u>
<b>Net cash provided (used) by noncapital     financing activities</b>	<u>313,187</u>
 <b>Cash flows from investing activities</b>	
Purchase of fixed assets	
Receipt of interest income	52
	<u>                    </u>
<b>Net cash provided (used) by investing activities</b>	<u>52</u>
 Net increase (decrease) in cash and cash equivalents	(23,501)
 Balances, beginning of year	<u>116,405</u>
 Balances, end of year	<u><u>\$ 92,904</u></u>

See accompanying notes to financial statements

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS, continued**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	School Food Service Fund
	Fund
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>	
Operating income (loss)	\$ (434,862)
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities</b>	
Depreciation	9,587
Donated commodities	22,270
State on-behalf payments	73,626
Change in assets and liabilities:	
Accounts receivable	(22,220)
Inventory	14,859
Accounts payable	-
	-
<b>Net cash provided (used) by operating activities</b>	<b>\$ (336,740)</b>
<b>Schedule of non-cash transactions:</b>	
Donated commodities received from Federal government	\$ 22,270
On-behalf payments	73,626

See accompanying notes to financial statements

**FIDUCIARY FUNDS FINANCIAL STATEMENTS**

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2013**

	Agency Funds
<b>ASSETS</b>	
Cash and cash equivalents	\$ 72,027
Accounts receivable	-
	<hr/>
Total assets	<u>72,027</u>
<b>LIABILITIES</b>	
Accounts payable	-
Due to student groups	72,027
	<hr/>
Total liabilities	<u>\$ 72,027</u>

See accompanying notes to financial statements

**NOTES TO FINANCIAL STATEMENTS**

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**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 included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Dawson Springs Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of the organizations.

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:

**Dawson Springs Independent School District Finance Corporation** – 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, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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

**Fund Financial Statement**

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

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

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

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

**Governmental Funds**

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

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

The *General Fund* is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. The Kentucky Department of Education has deemed this fund always be classified as a major fund.

The *Special Revenue Fund* accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods, as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. The Kentucky Department of Education has deemed this fund always be classified as a major fund.

*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 (including payment of bonded lease obligations).

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 Construction Fund is a major fund of the District.

The *Bond and Interest and Redemption Fund* is a debt service fund used to account for the accumulation of resources for, and the payment of, bonded debt and lease obligations, interest, and related costs.

Proprietary Funds

Proprietary funds are used to account for ongoing 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 fund's principal operating revenues are food service charges and day care charges. Operating expenses include food production costs, supplies, administrative costs, and depreciation on capital assets. All items not meeting this definition are reported as nonoperating revenues and expenses.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**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).

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. The Fiduciary Funds are prepared under the economic resources measurement focus and the accrual basis of accounting.

Agency Funds

Agency funds consist of activity funds, which are established at each school to account for the receipts and disbursements of various school activities administered for the general welfare of the students and completion of certain planned objectives and special programs of school groups. The District retains no equity interest in these funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

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.

Modified Accrual Basis

Under the modified accrual basis, revenues are recognized in the accounting period in which they become susceptible to accrual, i.e., both available and measurable. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include ad valorem taxes, reimbursable-type grants and interest on investments. The District considers all revenues (with the exception of the expenditure-driven grants) as available if they are collected within sixty (60) days after year-end. The expenditure driven grants are considered available if received within one year from the balance sheet date. Current year property tax revenue is recognized when taxes are received, except at year end when revenue is recognized for taxes received by the District within sixty (60) days subsequent to fiscal year end. Expenditures are recognized in the accounting period in which the liability is incurred. However, exceptions include the amount of unmatured principal and interest on general long-term debt, compensated absences, claims and judgments and certain prepaids which are recognized when due/paid.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

In applying the susceptible to accrual concept to revenues from Federal and State sources, the legal contractual requirements of the numerous individual programs are used as guidance. Revenue from grants and entitlements is recognized when all eligibility requirements have been satisfied. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before the District will receive any amounts; therefore, revenues are recognized based upon the occurrence of expenditures. In the other type, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed legal and contractual requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. In all cases, monies received before the revenue recognition criteria have been met are reported as unearned revenues.

Accrual

Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred.

The records of the District are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund, Special Revenue Fund and Capital Projects Funds.

Revenue Recognition

Revenues – Exchange and Non-exchange Transactions

Revenue 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 collectible within the current period or 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, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are 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, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned 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. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

Estimates

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

Interfund Activity

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

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next year. An assignment of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2013. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Assets, Liabilities, and Equity

Cash and Cash Equivalents

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

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

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Fund, which records inventory using the accrual basis of accounting. The Proprietary Fund inventory is recorded at the lower of cost, determined by first-in first-out (“FIFO”) method, or market value.

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.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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 capitalized.

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

<u>Description</u>	<u>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.

**Compensated Absences**

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position includes 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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any of this type of item.

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(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any of this type of item.

**Fund Balances**

In the fund financial statements, governmental fund balances are 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.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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”.

Subsequent Events

Subsequent events have been evaluated through November 12, 2013, which is the date the financial statements were available to be issued.

New GASB Pronouncements

The Governmental Accounting Standards Board has issued several new pronouncements that the District has reviewed for application to their accounting and reporting.

In March 2012, the GASB issued Statement 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement is effective for periods beginning after December 15, 2012 although the District elected to early implement Statement 62 in fiscal year 2013. The adoption of GASB 66 does not have any impact on the District's financial statements.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for periods beginning after June 15, 2012. Management is currently evaluating the impact of the adoption of this Statement on the District's financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is effective for periods beginning after December 15, 2011. This standard provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District has implemented this reporting for the year ended June 30, 2013. The components of net position were renamed to reflect the requirements of this statement.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is effective for financial statements for periods beginning after December 15, 2012. This statement improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The District has implemented this statement in the year ended June 30, 2013. As a result, prior year "deferred charges" of \$42,285 have been expensed in the prior period adjustment explained in Note 19.

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*. GASB 67 improves financial reporting by state and local governmental pension plans. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27*. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 2 – CASH AND CASH EQUIVALENTS**

As of June 30, 2013, the carrying amounts of the District's deposits were \$1,377,376 and the bank balances were \$1,468,272.

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

Governmental funds	\$ 1,212,444
Proprietary funds	92,905
Fiduciary funds	<u>72,027</u>
Total	<u>\$ 1,377,376</u>

Funds of the District are considered to be public funds and, therefore, their investment is limited by state statute to certain obligations of the United States or similar governmental agencies, cash instruments, and certain pooled investment funds.

Custodial Credit Risk

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. The District does not have a deposit policy for custodial credit risk. However, state statutes require the District's bank deposits to be collateralized. As of June 30, 2013, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Interest Rate Risk

The District does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, certificates of deposit are not subject to interest rate risk.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 3 – CAPITAL ASSETS**

Capital Asset activity for the fiscal year ended June 30, 2013, was as follows:

<b>Governmental Activities</b>	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2013</b>
Capital assets not depreciated:				
Land	\$ 490,545	\$ -	\$ -	\$ 490,545
Construction in progress	-	-	-	-
Total nondepreciable historical cost	<u>490,545</u>	<u>-</u>	<u>-</u>	<u>490,545</u>
Capital assets depreciated:				
Land improvements	565,916	-	-	565,916
Buildings and improvements	10,699,219	-	-	10,699,219
Technology equipment	1,076,778	134,507	147,977	1,063,308
General equipment	217,481	-	-	217,481
Vehicles	515,126	-	1,600	513,526
Total depreciable historical cost	<u>13,074,520</u>	<u>134,507</u>	<u>149,577</u>	<u>13,059,450</u>
Less: accumulated depreciation				
Land improvements	347,688	31,245	-	378,933
Building and improvements	3,230,459	286,109	-	3,516,568
Technology equipment	744,885	134,397	124,870	754,412
General equipment	143,586	10,129	1,600	152,115
Vehicles	411,920	23,665	-	435,585
Total accumulated depreciation	<u>4,878,538</u>	<u>485,545</u>	<u>126,470</u>	<u>5,237,613</u>
Total depreciable historical cost - net	<u>8,195,982</u>	<u>(351,038)</u>	<u>23,107</u>	<u>7,821,837</u>
Governmental activities capital assets - net	<u>\$ 8,686,527</u>	<u>\$ (351,038)</u>	<u>\$ 23,107</u>	<u>\$ 8,312,382</u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 3 – CAPITAL ASSETS, continued**

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

**Governmental Activities**

Instruction	\$ 326,224
Support services:	
Student	32,493
Instructional staff	2,263
District administration	15,703
School administration	6,415
Business	87
Plant operation and maintenance	31,091
Student transportation	28,047
Community service	<u>43,222</u>
	<u><u>\$ 485,545</u></u>

<b>Business-Type Activities</b>	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2013</b>
Capital assets depreciated:				
Buildings and improvements	\$ 2,010	\$ -	\$ -	\$ 2,010
Technology equipment	19,019	-	-	19,019
Food service equipment	<u>206,300</u>	<u>-</u>	<u>5,650</u>	<u>200,650</u>
Total depreciable historical cost	<u>227,329</u>	<u>-</u>	<u>5,650</u>	<u>221,679</u>
Less: accumulated depreciation				
Buildings and improvements	704	80	-	784
Technology equipment	17,431	484	-	17,915
Food service equipment	<u>127,897</u>	<u>9,022</u>	<u>2,315</u>	<u>134,604</u>
Total accumulated depreciation	<u>146,032</u>	<u>9,586</u>	<u>2,315</u>	<u>153,303</u>
Business-type activities capital assets - net	<u><u>\$ 81,297</u></u>	<u><u>\$ (9,586)</u></u>	<u><u>\$ 3,335</u></u>	<u><u>\$ 68,376</u></u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS**

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

<u>Issue</u>	<u>Proceeds</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>
Issue of 1994	\$ 340,000	2014	5.625% - 5.75%
Issue of 2006	2,235,000	2028	3.80% - 4.25%
Issue of 2009	3,135,000	2029	2.25% - 6.40%

Dawson Springs Independent School District Finance Corporation School Building Revenue Bonds, Series 1994, dated June 1, 1994, in the amount of \$340,000, were issued for the purpose of financing the acquisition and construction of renovations to the High School, Elementary School and Gymnasium.

Dawson Springs Independent School District Finance Corporation School Building Revenue Bonds, Series 2006, dated July 1, 2006, in the amount of \$2,235,000, were issued for the purpose of financing the construction of Phase 1 – consisting of four classrooms, a special education resource room, a science lab and restrooms at Dawson Springs High School.

Dawson Springs Independent School District Finance Corporation School Building Revenue Bonds, Taxable Series 2009, (Build America Bonds) dated July 1, 2009, in the amount of \$3,135,000, were issued for the purpose of financing the renovation of Dawson Springs Elementary School.

The Build American Bonds are taxable bonds issued by state and local governments that give them access to conventional corporate debt markets. Under a new federal payment subsidy, the Treasury Department will make a direct payment to the issuer in an amount equal to 35% of the interest payment (\$766,615 over the life of the bonds).

**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 KSFCC participation is 66.901% for the 1994 Revenue Bond Issue, 100% for the 2006 Revenue Bond Issue, and 78.78% for the 2009 Revenue Bond Issue.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS, continued**

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, 2013, for debt service (principal and interest) are as follows:

Year	Dawson Springs Independent School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2013-2014	\$ 127,858	\$ 144,580	\$ 123,533	\$ 85,408	\$ 481,379
2014-2015	131,695	139,672	109,771	80,055	461,193
2015-2016	137,735	134,273	113,652	75,554	461,214
2016-2017	137,483	128,279	118,920	70,781	455,463
2017-2018	136,245	121,990	124,525	65,685	448,445
2018-2019	146,355	115,125	129,434	60,284	451,198
2019-2020	134,803	107,605	135,197	54,583	432,188
2020-2021	138,794	99,824	141,206	48,575	428,399
2021-2022	142,265	91,565	147,735	42,222	423,787
2022-2023	156,445	82,604	153,555	35,578	428,182
2023-2024	154,269	73,186	160,731	28,634	416,820
2024-2025	155,681	63,597	169,319	21,279	409,876
2025-2026	168,778	53,331	176,222	13,569	411,900
2026-2027	202,904	41,437	137,096	6,553	387,990
2027-2028	172,775	29,415	22,225	2,745	227,160
2028-2029	184,204	17,992	20,796	1,368	224,360
2029-2030	189,002	6,049	10,977	351	206,379
	<u>\$ 2,617,291</u>	<u>\$ 1,450,524</u>	<u>\$ 1,994,894</u>	<u>\$ 693,224</u>	<u>\$ 6,755,933</u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS, continued**

The changes in outstanding debt are as follows:

	Balance July 1, 2012	New Issues/ Adjustments	Debt Payments/ Adjustments	Balance June 30, 2013
<u>Revenue Bonds</u>				
Series 1994	\$ 50,000	\$ -	\$ 25,000	\$ 25,000
Series 2006	1,820,000	-	95,000	1,725,000
Series 2009	2,910,000	-	115,000	2,795,000
Annexation Note Payable	<u>78,525</u>	<u>-</u>	<u>11,340</u>	<u>67,185</u>
Total	<u>\$ 4,858,525</u>	<u>\$ -</u>	<u>\$ 246,340</u>	<u>\$ 4,612,185</u>

**NOTE 5 – CAPITAL LEASE OBLIGATIONS**

The District has entered into lease agreements with KISTA for financing the acquisitions of school buses and with Central Kentucky Educational Cooperative for financing the acquisitions of technology equipment. The following is an analysis of the leased property under capital lease by class:

<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Vehicle	\$ 157,901	\$ 78,686
Technology	120,000	120,000

The following is a schedule, by years, of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 3013:

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 5 – CAPITAL LEASE OBLIGATIONS, continued**

Year Ending	KISTA 2007 lease	KISTA 2009 lease	Total payments
2014	\$ 8,512	\$ 10,311	\$ 18,823
2015	8,545	10,345	18,890
2016	7,201	10,329	17,530
2017	7,263	10,320	17,583
2018	-	8,639	8,639
2019	-	8,631	8,631
Total minimum lease payments	\$ 31,521	\$ 58,575	\$ 90,096
Lease amount representing interest	<u>2,611</u>	<u>6,441</u>	<u>9,052</u>
Present value of net minimum lease payments	<u>\$ 28,910</u>	<u>\$ 52,134</u>	<u>\$ 81,044</u>

During the year ended June 30, 2013, the following changes occurred in the capital lease obligations:

	Balance July 1, 2012	Additions	Payments	Balance June 30, 2013	Due in One Year
KISTA 2007	\$ 36,215	\$ -	\$ 7,305	\$ 28,910	\$ 7,456
KISTA 2009	60,442	-	8,308	52,134	8,533
	<u>\$ 96,657</u>	<u>\$ -</u>	<u>\$ 15,613</u>	<u>\$ 81,044</u>	<u>\$ 15,989</u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 6 – FUND BALANCE REPORTING**

Following is a summary of designations of fund balance at June 30, 2013:

	General Fund	Special Revenue	Other Governmental Funds	Total
Nonspendable	\$ 50,751	\$ -	\$ 42,000	\$ 92,751
Restricted:				
Future construction	-	-	-	-
Capital outlay	-	-	-	-
SFCC escrow	-	-	-	-
Debt service	-	-	-	-
Committed:				
Sick leave	-	-	-	-
Site-based carryforward	-	-	-	-
Assigned	25,697	-	-	25,697
Unassigned	1,194,406	-	-	1,194,406
	<u>\$ 1,270,854</u>	<u>\$ -</u>	<u>\$ 42,000</u>	<u>\$ 1,312,854</u>

**NOTE 7 – 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. The amount estimated for expenditure for school year 2014 is \$15,242. Management has estimated that the long-term obligation will be approximately \$121,612.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 8 – 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.

**NOTE 9 – PENSION PLANS**

Kentucky Teachers' Retirement

*Plan description* - The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education (KDE). Any benefit amendments must be authorized by the State Legislature.

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

*Funding policy* - Contribution rates are established by KRS. Members are required to contribute 10.855% of the employees' salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of the employees' salaries for employees hired prior to July 1, 2008 and 14.105% for employees hired after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 9 – PENSION PLANS, continued**

Medical Insurance Plan

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

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

*Funding policy* – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help with the medical expenses of the plan.

The District's total payroll was \$3,654,707 for the year ended June 30, 2013. The payroll for employees covered under KTRS was \$2,825,187 for the year ended June 30, 2013. The Commonwealth contributed \$352,064, \$381,498, and \$350,951 to KTRS for the benefit of the participating employees for the years ended June 30, 2013, 2012, and 2011, respectively. The District's contributions to KTRS were equal to the required contributions of \$23,959, \$21,260, and \$39,280 for the years ended June 30, 2013, 2012, and 2011, respectively, which represent those employees covered by federal programs.

County Employees' Retirement System

*Plan description* – Substantially all other employees (classified personnel) are covered under the County Employees' Retirement System (CERS), a cost sharing, multiple-employer defined benefit plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. CERS provides retirement, death and disability benefits to Plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State Legislature.

Under provision of the Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 9 – PENSION PLANS, continued**

*Funding policy* – Funding for the plan is provided through payroll withholdings of 5% for employees hired prior to September 1, 2008 and 6% for employees hired after September 1, 2008 and a District contribution of 19.55% of the employee's total compensation subject to contribution. The payroll for employees covered under CERS was \$811,376 for the year ended June 30, 2013. The District's contributions to CERS were equal to the required contributions of \$163,307, \$159,035 and \$150,911, for the years ended June 30, 2013, 2012 and 2011, respectively.

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

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

Other

The District makes available various 401(k) and 403(b) defined contribution pension plans for all employees. These Plans are administered by independent third party administrators. Employees are allowed to contribute any amount to the Plans up to the Internal Revenue Code maximum allowable amount. The District does not contribute to the Plans, but the District retains authority to amend or terminate these plans. During the year ended June 30, 2013, employees of the District contributed \$28,077 to 401(k) plans and \$19,379 to 403(b) plans.

**NOTE 10 – DEFERRED COMPENSATION**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on its financial statements. The District does not contribute to these plans, and employees of the District contributed \$8,745 to these plans during the year ended June 30, 2013.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 11 – ON-BEHALF PAYMENTS**

The Commonwealth of Kentucky (the “State”) is required to fund the matching contributions for the District’s personnel participating in the Teachers’ Retirement System of the State of Kentucky (see Note 9). The District also received on-behalf payments for certain fringe benefits from the State in the amount of \$508,395 for the fiscal year ending June 30, 2013. These payments, as well as the KTRS matching contributions of \$352,064, are included as equal amounts of revenues and expenditures in the accompanying Statement of Activities. Additionally, the District received technology on-behalf payments of \$76,626.

**NOTE 12 – INSURANCE AND RELATED ACTIVITIES**

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

**NOTE 13 – RISK MANAGEMENT AND LITIGATION**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker’s compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards’ Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards’ Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers’ Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

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.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 13 – RISK MANAGEMENT AND LITIGATION, continued**

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 – DEFICIT OPERATING FUND BALANCES**

There are no funds of the District that currently have a deficit fund balance. Also, no funds had operations that resulted in a current year deficit of revenues over expenditures causing a corresponding reduction of fund balance.

**NOTE 15 – 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 16 – TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	KETS matching for technology	\$ 12,452
Building	Debt Service	Bond payments	<u>219,067</u>
			<u><u>\$ 231,519</u></u>

**NOTE 17 – INTERFUND RECEIVABLES AND PAYABLES**

There were no interfund balances at June 30, 2013.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 18 – PROPERTY TAXES**

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business and personal property located in the District. The assessed value of the certified roll, upon which the levy for the 2012 fiscal year was based, was \$69,044,768.

The tax rates for the school year ended June 30, 2013 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$0.673 real estate and \$0.673 tangible per \$100 valuation.

Taxes are due on October 1 and become delinquent by January 1 following the October 1 levy date. Current general and PSC property tax collections for the year ended June 30, 2013 were 84.26% of the tax levy.

Property tax revenues and other governmental fund financial resource increments (i.e., bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period.

**NOTE 19 – EFFECT OF GASB 65 IMPLEMENTATION**

During the year ended June 30, 2013, the following affected the beginning net position of the District:

Changes were made to reflect the effect of implementing GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities. This statement requires that bond issue costs be shown as current-period outflows of resources (expenses). A prior period adjustment of \$42,285 is shown as an increase in the beginning net position in the Statement of Activities.

**NOTE 20 – ANNUAL FINANCIAL REPORT DIFFERENCE**

Capital Outlay Expenses per AFR	\$ 19,744
Capital Outlay Expenses per audit	<u>62,384</u>
Difference	<u><u>\$ (42,640)</u></u>

The difference above is a result of the prior year audited balances beginning with a fund balance of \$42,640 and not recorded as a beginning balance by the District.

**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, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
From local sources:				
Taxes				
Property	\$ 311,000	\$ 311,000	\$ 374,870	\$ 63,870
Motor vehicle	50,000	50,000	69,002	19,002
Utilities	90,200	90,200	105,652	15,452
Other	7,500	7,500	10,264	2,764
Earnings on investments	750	750	727	(23)
Other local revenues	4,500	4,500	18,169	13,669
Intergovernmental - state	3,198,314	3,198,314	3,416,939	218,625
Intergovernmental - federal	-	-	-	-
Other receipts	-	-	-	-
<b>Total revenues</b>	<b>3,662,264</b>	<b>3,662,264</b>	<b>3,995,623</b>	<b>333,359</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Instruction	2,412,532	2,412,532	2,333,962	78,570
Support services:				
Student	163,923	163,923	161,372	2,551
Instructional staff	159,613	159,613	128,161	31,452
District administration	895,386	895,386	264,506	630,880
School administration	303,350	303,350	303,058	292
Business	189,231	189,231	197,913	(8,682)
Plant operation and maintenance	471,193	471,193	342,853	128,340
Student transportation	172,699	172,699	161,974	10,725
Community Services	44,455	44,455	49,003	(4,548)
Land/Site acquisition	1,648	1,648	5,093	(3,445)
Facilities acquisition and construction			-	-
Debt service	1,000	1,000	-	1,000
<b>Total expenditures</b>	<b>4,815,030</b>	<b>4,815,030</b>	<b>3,947,895</b>	<b>867,135</b>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<b>(1,152,766)</b>	<b>(1,152,766)</b>	<b>47,728</b>	<b>1,200,494</b>
<b>Other financing sources (uses)</b>				
Proceeds from sale of fixed assets			-	-
Operating transfers in	-	-	-	-
Operating transfers out	(12,452)	(12,452)	(12,452)	-
<b>Total other financing sources (uses)</b>	<b>(12,452)</b>	<b>(12,452)</b>	<b>(12,452)</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>(1,165,218)</b>	<b>(1,165,218)</b>	<b>35,276</b>	<b>1,200,494</b>
<b>Fund balance, July 1, 2012</b>	<b>1,164,952</b>	<b>1,164,952</b>	<b>1,235,578</b>	<b>70,626</b>
<b>Fund balance, June 30, 2013</b>	<b>\$ (266)</b>	<b>\$ (266)</b>	<b>\$ 1,270,854</b>	<b>\$ 1,271,120</b>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - SPECIAL REVENUE  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amount</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		<u>(Unfavorable)</u>
<b>REVENUES</b>				
From local sources:				
Earnings on investments	\$ -	\$ -	\$ -	\$ -
Other local revenues	-	-	813	813
Intergovernmental - state	429,414	179,345	191,574	12,229
Intergovernmental - federal	<u>862,077</u>	<u>457,879</u>	<u>421,467</u>	<u>(36,412)</u>
<b>Total revenues</b>	<u>1,291,491</u>	<u>637,224</u>	<u>613,854</u>	<u>(23,370)</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Instruction	1,057,237	512,196	474,935	37,261
Support services:				
Student			-	-
Instructional staff	90,286	45,386	59,193	(13,807)
School administration			-	-
Business	44,660	24,904	20,953	3,951
Student transportation	4,240	-	3,610	(3,610)
Community services	<u>143,466</u>	<u>66,929</u>	<u>75,243</u>	<u>(8,314)</u>
<b>Total expenditures</b>	<u>1,339,889</u>	<u>649,415</u>	<u>633,934</u>	<u>15,481</u>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<u>(48,398)</u>	<u>(12,191)</u>	<u>(20,080)</u>	<u>(7,889)</u>
<b>Other financing sources (uses)</b>				
Operating transfers in	<u>22,330</u>	<u>12,452</u>	<u>12,452</u>	<u>-</u>
<b>Total other financing sources (uses)</b>	<u>22,330</u>	<u>12,452</u>	<u>12,452</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>(26,068)</u>	<u>261</u>	<u>(7,628)</u>	<u>(7,889)</u>
<b>Fund balance, July 1, 2012</b>	<u>-</u>	<u>-</u>	<u>7,628</u>	<u>7,628</u>
<b>Fund balance, June 30, 2013</b>	<u>(26,068)</u>	<u>\$ 261</u>	<u>\$ -</u>	<u>\$ (261)</u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2013**

**NOTE 1 – BUDGETARY INFORMATION**

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

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

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

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

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

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

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

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

**Reconciliation to the General Fund**

Revenues - budgetary basis	\$ 3,995,623
On-behalf payments	<u>860,459</u>
Total revenues - modified cash basis	<u><u>\$ 4,856,082</u></u>
Expenditures - budgetary basis	\$ 3,947,895
On-behalf payments	<u>860,459</u>
Total expenditures - modified cash basis	<u><u>\$ 4,808,354</u></u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Accounts receivable	-	-	-	-
Prepaid expense	-	42,000	-	42,000
Total assets and resources	\$ -	\$ 42,000	\$ -	\$ 42,000
 <b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
 Fund Balances				
Nonspendable	-	42,000	-	42,000
Spendable				
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	-	42,000	-	42,000
Total liabilities and fund balances	\$ -	\$ 42,000	\$ -	\$ 42,000

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
From local sources:				
Taxes				
Property	\$ 34,055	\$ -	\$ -	\$ 34,055
Motor vehicle	-	-	-	-
Earnings on investments	-	-	-	-
Intergovernmental - state	189,766	61,744	209,460	460,970
Intergovernmental - direct federal	-	-	56,863	56,863
<b>Total revenues</b>	<u>223,821</u>	<u>61,744</u>	<u>266,323</u>	<u>551,888</u>
<b>EXPENDITURES</b>				
Plant operation and maintenance	-	62,384	-	62,384
Building acquisition and construction	5,594	-	-	5,594
District administration	-	-	-	-
Debt service	-	-	485,390	485,390
<b>Total expenditures</b>	<u>5,594</u>	<u>62,384</u>	<u>485,390</u>	<u>553,368</u>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<u>218,227</u>	<u>(640)</u>	<u>(219,067)</u>	<u>(1,480)</u>
<b>Other financing sources (uses)</b>				
Bond principal proceeds	-	-	-	-
Operating transfers in	-	-	219,067	219,067
Operating transfers out	(219,067)	-	-	(219,067)
<b>Total other financing sources (uses)</b>	<u>(219,067)</u>	<u>-</u>	<u>219,067</u>	<u>-</u>
<b>Net change in fund balances</b>	(840)	(640)	-	(1,480)
<b>Fund balances, July 1, 2012</b>	<u>840</u>	<u>42,640</u>	<u>-</u>	<u>43,480</u>
<b>Fund balances, June 30, 2013</b>	<u>\$ -</u>	<u>\$ 42,000</u>	<u>\$ -</u>	<u>\$ 42,000</u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS  
 ALL ACTIVITY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balance July 1, 2012	Receipts	Disbursements	Cash Balance June 30, 2013	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2013
Dawson Springs Junior and Senior High School	\$ 53,445	\$ 193,498	\$ 183,432	\$ 63,511	\$ -	\$ -	\$ 63,511
Dawson Springs Elementary	7,968	27,241	26,693	8,516	-	-	8,516
Totals	<u>\$ 61,413</u>	<u>\$ 220,739</u>	<u>\$ 210,125</u>	<u>\$ 72,027</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,027</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, 2013**

	Cash Balance July 1, 2012	Receipts	Disbursements	Cash Balance June 30, 2013	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2013
Academic	\$ 182	\$ 1,137	\$ 1,319	-	\$ -	\$ -	-
Annual Staff	5,678	12,328	1,956	16,050	-	-	16,050
Art Club	3,393		2,137	1,256	-	-	1,256
Athletic	17,628	41,572	40,420	18,780	-	-	18,780
Back to school	2,471	1,947	2,251	2,167	-	-	2,167
Baseball boosters	228	2,708	2,928	8	-	-	8
BETA Club	157	5,250	5,348	59	-	-	59
Boys basketball	-	1,966	1,946	20	-	-	20
Boys soccer	596	4,602	4,030	1,168	-	-	1,168
Cheerleading - HS	313	7,284	6,848	749	-	-	749
Project Prom	2,618	4,181	5,628	1,171	-	-	1,171
Class of 2012	563	-	563	-	-	-	-
Class of 2013	2,716	41,006	42,925	797	-	-	797
Class of 2014	674	2,620	2,350	944	-	-	944
Class of 2015	202	25	-	227	-	-	227
Class of 2016	413	66	-	479	-	-	479
Class of 2017	412	338	-	750	-	-	750
Class of 2018	-	833	726	107	-	-	107
Cokes - HS	262	533	73	722	-	-	722
Crimestoppers	140	-	140	-	-	-	-
Cross Country	1,202	4,582	4,224	1,560	-	-	1,560
Dance Team	29	-	29	-	-	-	-
DECA	243	-	-	243	-	-	243
Drama Club	25	-	25	-	-	-	-
Earth Day	-	1,301	1,136	165	-	-	165
Education Fund	1,896	6,281	5,914	2,263	-	-	2,263
FBLA	1,680	664	445	1,899	-	-	1,899
FCA	23	-	-	23	-	-	23
Girls basketball	1,287	7,195	8,301	181	-	-	181

(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, 2013**

	Cash Balance July 1, 2012	Receipts	Disbursements	Cash Balance June 30, 2013	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2013
Girls soccer	89	4,862	3,938	1,013	-	-	1,013
Golf	810	25	-	835	-	-	835
Library (Media Center)	347	534	163	718	-	-	718
Jr. Beta Club	59	390	390	59	-	-	59
Jr. Hi Academic	75	4,358	4,211	222	-	-	222
MS boys basketball	1,587	732	873	1,446	-	-	1,446
MS cheerleaders	1	2,728	2,400	329	-	-	329
MS girls basketball	1,514	889	468	1,935	-	-	1,935
Music	354	3,816	2,210	1,960	-	-	1,960
National Honor Society	59	-	59	-	-	-	-
Office Fund	1,518	5,256	4,692	2,082	-	-	2,082
Paw Mart	931	-	931	-	-	-	-
Softball	246	6,757	6,291	712	-	-	712
Spanish Club	277	65	321	21	-	-	21
Student Awards	38	-	-	38	-	-	38
Track	509	300	456	353	-	-	353
	53,445	179,131	169,065	63,511	-	-	63,511
Less: Interfund Transfers	-	14,367	14,367	-	-	-	-
Totals	<u>\$ 53,445</u>	<u>\$ 193,498</u>	<u>\$ 183,432</u>	<u>\$ 63,511</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,511</u>

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	
U.S. Department of Education				
Passed through State Department of Education:				
Title I Grants to Local Education Agencies***	84.010	310000212	\$ 196,218	
		310000211	22,338	
		310000210	<u>367</u>	\$ 218,923
Career and Technical Education - Basic Grants to States	84.048	462133213		5,443
Special Education Preschool Grants	84.173**	380000212	7,593	
		380000211	<u>2,393</u>	9,986
Improving Teacher Quality State Grants	84.367	323000212		27,589
Special Education - Grants to States	84.027**	381000212	130,363	
		381000211	<u>7,717</u>	138,080
Rural School	84.358	314000212		13,031
Education Jobs Fund	84.410	EJOB0010		<u>10,650</u>
Total U. S. Department of Education				<u>423,702</u>
U.S. Department of Agriculture				
Passed through State Department of Education:				
School Breakfast Program	* 10.553	7760005-12	25,323	
		7760005-13	<u>76,061</u>	101,384
National School Lunch Program	* 10.555	7750002-12	59,623	
		7750002-13	148,233	
Noncash Assistance - Commodities (Note 4)		Fund 51	<u>22,270</u>	230,126
Total U.S. Department of Agriculture				<u>331,510</u>
Total Expenditures of Federal Awards				<u>\$ 755,212</u>

\*Child Nutrition Cluster

\*\*Special Education Cluster

\*\*\*Major Program

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

**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, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**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.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013**

<u>Board Members</u>	<u>Address</u>	<u>Term Expires</u>
Chris R. Smiley Chairman	Dawson Springs, Kentucky	2013
Vicki Allen Vice Chairman	Dawson Springs, Kentucky	2015
Tracy Overby Member	Dawson Springs, Kentucky	2015
Earl Menser Member	Dawson Springs, Kentucky	2015

Administrative Personnel

Charles Proffitt – Superintendent, July 2012 - 2013

Jennifer A. Bruce – Treasurer and Secretary

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, and Appendix III to the Independent Auditor's Contract – Electronic Submission*, 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 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Dawson Springs Independent School District's basic financial statements and have issued our report thereon dated November 12, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Dawson Springs Independent School 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 Dawson Springs Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Dawson Springs Independent School 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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiency (item 2013-01).

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Dawson Springs Independent School 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*. However, we noted certain matters that we have reported to management of Dawson Springs Independent School District in a separate letter dated November 12, 2013.

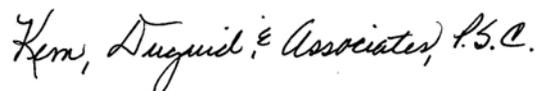
### **Dawson Springs Independent School District's Response to Findings**

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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



Certified Public Accountants  
Hopkinsville, Kentucky

November 12, 2013

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



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

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

### **Report on Compliance for Each Major Federal Program**

We have audited Dawson Springs Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Dawson Springs Independent School District's major federal programs for the year ended June 30, 2013. Dawson Springs Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditors' Responsibility**

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Dawson Springs Independent School 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, 2013.

### **Report on Internal Control over Compliance**

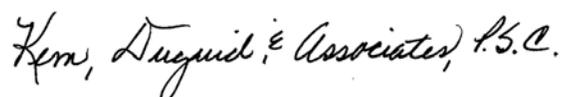
Management of Dawson Springs Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements referred to above. In planning and performing our audit of compliance, we considered Dawson Springs Independent School District's internal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

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

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

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

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



Certified Public Accountants  
Hopkinsville, Kentucky

November 12, 2013

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Dawson Springs Independent School District.
2. One significant deficiency was disclosed during the audit of the financial statements. See Section B: 2013-01.
3. No instances of noncompliance material to the financial statements of Dawson Springs Independent School District were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit of Dawson Springs Independent School District.
5. The auditor's report on compliance for the major federal award programs for Dawson Springs Independent School District expresses an unqualified opinion on all major federal programs.
6. The audit disclosed no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was:

Program Title	CFDA Number
Title I	84.010

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Dawson Springs Independent School District was determined to be a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**2013-01 Internal Controls**

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

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

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

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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

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

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

There were no prior year findings to report for Dawson Springs Independent School District.

**MANAGEMENT COMMENTS FOR AUDIT**

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



November 12, 2013

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

In planning and performing our audit of the financial statements of Dawson Springs Independent School District for the year ended June 30, 2013, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of some matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 12, 2013 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 many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We performed a follow-up on the prior year findings with the status of these findings documented on page 70 of this report.

Respectfully,

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

Certified Public Accountants  
Hopkinsville, Kentucky

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**DAWSON SPRINGS ELEMENTARY SCHOOL**

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

Multiple receipt forms were not properly completed  
Sales from Concessions/Bookstore/Pencil Machine form not properly completed

**Criteria** – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) requires the used of various worksheets (or reasonable facsimiles) and establishes certain procedures for handling funds

**Cause** – Oversight.

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

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

**Response** – The school will comply with the recommendation and will stress compliance with the “Red Book”.

**DAWSON SPRINGS JUNIOR AND SENIOR HIGH SCHOOL**

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

PTO Budget and Annual Report were not submitted to the principal  
Numerous purchase orders dated after invoice  
Numerous purchase orders were not approved by supervisor or principal  
Inventory control worksheet not used properly  
Multiple receipt forms were not properly completed

**Criteria** – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) requires the used of various worksheets (or reasonable facsimiles) and establishes certain procedures for handling funds

**Cause** – Oversight.

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

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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

**Response** – The school will comply with the recommendation and will stress compliance with the “Red Book”.

**DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**DAWSON SPRINGS ELEMENTARY SCHOOL**

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

Fundraiser worksheets were not used  
PTO Budget and Annual Report were not submitted to the principal  
Multiple receipt forms were not properly completed  
Teacher appreciation expense was paid out of the office account

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

**Current Status** – The finding was repeated with respect to multiple receipts forms.

**DAWSON SPRINGS JUNIOR AND SENIOR HIGH SCHOOL**

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

Fundraiser worksheets were not used  
PTO Budget and Annual Report were not submitted to the principal  
Numerous control worksheet not used properly

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

**Current Status** – The finding was repeated with respect to PTO Budget and Annual Report, purchase orders and inventory control worksheets.

**CENTRAL OFFICE**

**Condition** – The District did not take an annual inventory of fixed assets.

**Recommendation** – District policy states inventories of all district assets and equipment will be developed annually by appropriate personnel in support of District Policy 4.7. Results of these inventories will be reconciled, coordinated, and reported as required by the Finance Office to the Superintendent and School Board.

**Current Status** – The finding was repeated.