DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
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DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
JUNE 30, 2014

BOARD OF EDUCATION

Chris R. Smiley, Chairman
Vicki Allen, Vice Chairman
Tracy Overby, Member
Earl Menser, Member
Melissa Knight, Member
Cliff Key, Member

ADMINISTRATIVE STAFF

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

Michael A. Kem, CPA
Sandra D. Duguid, CPA
Anna B. Gentry, CPA
Walter G. Cummings, CPA

Kem, Duguid & Associates, PSC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Dawson Springs Independent School District as of and for the year ended June 30, 2014, 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.

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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, 2014, 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 48–50 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 and 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 14, 2014, 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.

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

Certified Public Accountants
Hopkinsville, Kentucky

November 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT – DAWSON SPRINGS, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014

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, 2014. 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 $1,175,058, as compared with the beginning cash balance of $1,377,376. The ending cash balance consisted of General Fund of $943,045, Special Revenue Fund of ($52,599), other governmental funds of $57,030, Food Service Fund of $144,588, and School Activity Funds of $82,994.

- The General Fund had $4,623,822 in revenues, which primarily consisted of the state program (SEEK) funds, property, utilities, and motor vehicle taxes, and on-behalf payments for fringe benefits from the Commonwealth of Kentucky. General Fund revenues decreased in comparison to prior year revenues of $4,856,082. Excluding interfund transfers, there were $4,924,951 in General Fund expenditures. This compares to $4,858,354 in General Fund expenditures for the prior year.

- The financial statements reflect a total of $1,196,613 of revenues and aid from the state for payments made by the state on-behalf of district employees for retirement contributions, health insurance, debt service, and technology. A like amount of expenses is also recorded in the financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements – The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all the District's assets and deferred outflows of resources and liabilities. 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.

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.

- *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 48.

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 $4,645,064 as of June 30, 2014.

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.

Following is a summary of the District's government-wide net position for the fiscal years ended June 30, 2014 and 2013:

Net Position for the Fiscal Years Ended June 30, 2014 and 2013

	Governmental Activities		Business-type Activities		District Total	
	2014	2013	2014	2013	2014	2013
Current assets and other assets	$ 1,058,842	$ 1,430,547	$ 158,093	$ 134,013	$ 1,216,935	$ 1,564,560
Capital assets	7,987,945	8,312,382	59,521	68,376	8,047,466	8,380,758
Total assets	9,046,787	9,742,929	217,614	202,389	9,264,401	9,945,318
Deferred inflow	62,341	-	-	-	62,341	-
Current liabilities	126,148	159,838	-	5,000	126,148	164,838
Noncurrent obligations	4,555,530	4,814,841	-	-	4,555,530	4,814,841
Total liabilities	4,681,678	4,974,679	-	5,000	4,681,678	4,979,679
Net position						
Investment in capital assets, net of related debt	3,508,628	3,619,153	59,521	68,376	3,568,149	3,687,529
Restricted	57,030	-	-	-	57,030	-
Unrestricted	861,792	1,149,097	158,093	129,013	1,019,885	1,278,110
Total net position	$ 4,427,450	$ 4,768,250	$ 217,614	$ 197,389	$ 4,645,064	$ 4,965,639

Change in net position. The District's governmental activities net position decreased by $340,840 and business-type activities net position increased $20,225.

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.

Following is a summary of schedule of changes in the District's net position for the years ended June 30, 2014 and 2013:

Changes in Net Position for the Fiscal Years Ended June 30, 2014 and 2013

	Governmental Activities		Business-type Activities		District Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Operating grants and contributions	$ 4,888,452	$ 5,076,068	$ 332,260	$ 331,510	$ 5,220,712	$ 5,407,578
Capital grants and contributions	264,443	209,460	-	-	264,443	209,460
Charges for services	-	-	52,556	54,990	52,556	54,990
General revenues:						
Property taxes	365,008	408,925	-	-	365,008	408,925
Other taxes	212,865	184,918	-	-	212,865	184,918
Investment earnings	296	727	22	52	318	779
State aid	11,073	60,955	81,220	77,572	92,293	138,527.00
Other	119,072	(4,125)	-	(3,335)	119,072	(7,460)
Total revenues	5,861,209	5,936,928	466,058	460,789	6,327,267	6,397,717
Expenses:						
Instruction	3,753,196	3,719,347	-	-	3,753,196	3,719,347
Student support services:	201,316	200,558	-	-	201,316	200,558
Instructional support	157,963	196,310	-	-	157,963	196,310
District administration	284,463	285,246	-	-	284,463	285,246
School administration	324,714	344,344	-	-	324,714	344,344
Business support	107,555	218,953	-	-	107,555	218,953
Plant operations	537,983	468,339	-	-	537,983	468,339
Student transportation	186,287	203,234	-	-	186,287	203,234
Community services	175,516	167,468	-	-	175,516	167,468
Interest on long-term debt	435,416	236,703	-	-	435,416	236,703
Other	-	10,687	-	-	-	10,687
Bond issuance costs	37,640	-	-	-	37,640	-
Food service	-	-	445,833	489,852	445,833	489,852
Total expenses	6,202,049	6,051,189	445,833	489,852	6,647,882	6,541,041
Increase (Decrease) in net position	$ (340,840)	$ (114,261)	$ 20,225	$ (29,063)	$ (320,615)	$ (143,324)

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 $1,020,012 a decrease of $292,842 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, 2014 and 2013.

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

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

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

Following is a summary of fund balances for the fiscal years ended June 30, 2014 and 2013:

Governmental Funds Balances as of June 30, 2014 and 2013

	2014	2013	Increase (Decrease)
Governmental Funds			
General Fund	$ 962,982	$ 1,270,854	$ (307,872)
Special Revenue Fund	-	-	-
Building Fund	13,548	-	13,548
Capital Outlay	43,482	42,000	1,482
Debt Service Fund	-	-	-
Total governmental funds	$ 1,020,012	$ 1,312,854	$ (292,842)
Proprietary Funds			
Food Service Fund	$ 217,614	$ 197,389	$ 20,225

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 $944,981, while total fund balance reached $962,982. 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 19.18% of total General Fund expenditures, while total fund balance represents 19.54% of that same amount.

During the current fiscal year, the total fund balance of the General Fund decreased by $307,872. Revenues and transfers totaling $4,626,957 decreased by $229,125, while expenditures and transfers totaling $4,934,829 increased by $114,023.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with directives from the Kentucky Department of Education (DOE) and Kentucky law, the District's funds budgets are prepared to account for most transactions on a cash receipt/cash disbursement/encumbrance basis. The DOE requires a budget in which any budgeted remaining fund balance is shown as a contingency expense and any amounts being accumulated for other purposes ultimately shown as unspent or over-budgeted expenditures. By law, the budget must have a minimum 2% contingency. The District adopted a General Fund budget with a contingency of ($377,822) or 8.10%. 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 $910,508 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, 2014, excluding interfund transfers, beginning balances, and on-behalf payments, were $3,713,314; compared to the total budgeted revenues of $3,492,482.
- The District's total expenditures for General Fund activities for the fiscal year ended June 30, 2014, excluding interfund transfers and on-behalf payments, were $4,014,443; compared to the total budgeted expenditures of $4,652,967
- The fund balance at the end of the 2014 fiscal year for all Governmental Funds was $1,020,012 compared to $1,312,854 in the prior year.

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

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At June 30, 2014, the District had $8,047,466 invested in capital assets net of depreciation: historical costs totaled $13,792,382 with accumulated depreciation totaling $5,744,916. 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 $164,751. Depreciation charged to expense during the year totaled $492,227, 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.

Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2014 and 2013.

Net Capital Assets for the Fiscal Years Ended June 30, 2014 and 2013

	Governmental Activities		Business-type Activities		District Total	
	2014	2013	2014	2013	2014	2013
Land	$ 495,114	$ 490,545	$ -	$ -	$ 495,114	$ 490,545
Land improvements	155,992	186,983	-	-	155,992	186,983
Construction in progress	-	-	-	-	-	-
Building and improvements	6,896,541	7,182,650	1,147	1,226	6,897,688	7,183,876
Technology equipment	311,873	308,897	620	1,104	312,493	310,001
General equipment	70,566	63,766	-	-	70,566	63,766
Vehicles	57,859	79,541	-	-	57,859	79,541
Food service equipment	-	-	57,754	66,046	57,754	66,046
Total	$ 7,987,945	$ 8,312,382	$ 59,521	$ 68,376	$ 8,047,466	$ 8,380,758

Long-Term Debt – The District's long-term general obligation bonds outstanding at June 30, 2014 were $4,380,000. 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 $1,937,362 of the bonds leaving the District to pay $2,442,638. 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 $55,755.

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, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 947,476	$ 144,588	$ 1,092,064
Accounts receivable:			
Taxes	19,937	-	19,937
Intergovernmental - indirect federal	91,429	-	91,429
Inventory	-	13,505	13,505
Capital assets:			
Non-depreciable	495,114	-	495,114
Depreciable (net)	7,492,831	59,521	7,552,352
Total assets	9,046,787	217,614	9,264,401
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on debt refundings	62,341	-	62,341
LIABILITIES			
Unearned revenue	38,830	-	38,830
Interest payable	87,318	-	87,318
Long-term obligations:			
Portion due or payable within one year:			
Bonds payable	281,406	-	281,406
Capital lease obligations	16,582	-	16,582
Accrued sick leave	-	-	-
Portion due or payable after one year:			
Bonds payable	4,132,856	-	4,132,856
Capital lease obligations	48,473	-	48,473
Accrued sick leave	76,213	-	76,213
Total liabilities	4,681,678	-	4,681,678
NET POSITION			
Invested in capital assets, net of related debt	3,508,628	59,521	3,568,149
Capital projects	57,030	-	57,030
Unrestricted	861,792	158,093	1,019,885
Total net position	$ 4,427,450	$ 217,614	$ 4,645,064

See accompanying notes to financial statements

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

		Program Revenues			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Net (Expenses) Revenues
Functions/Programs					
Governmental Activities:					
Current:					
Instruction	$ 3,753,196	$ -	$ 3,820,250	$ -	$ 67,054
Support services:					
Student	201,316	-	7,015	-	(194,301)
Instructional staff	157,963	-	262,151	-	104,188
District administration	284,463	-	18,138	-	(266,325)
School administration	324,714	-	53,615	-	(271,099)
Business	107,555	-	138,822	-	31,267
Plant operation and maintenance	537,983	-	33,550	-	(504,433)
Student transportation	186,287	-	91,032	-	(95,255)
Community service activities	175,516	-	463,879	-	288,363
Interest on long-term debt	435,416	-	-	264,443	(170,973)
Bond issuance costs	37,640	-	-	-	(37,640)
Total governmental activities	6,202,049	-	4,888,452	264,443	(1,011,514)
Business-Type Activities:					
Food service	445,833	52,556	332,260	-	(61,017)
Total business-type activities	445,833	52,556	332,260	-	(61,017)
Total activities	$ 6,647,882	$ 52,556	$ 5,220,712	264,443	$ (1,072,531)

	Governmental Activities	Business-Type Activities	Total
Changes in Net Position			
Net revenues (expenses)	$ (1,049,154)	$ (61,017)	$ (1,110,171)
General Revenues			
Taxes:			
Property	365,008	-	365,008
Motor vehicle	71,387	-	71,387
Utilities	130,214	-	130,214
Other	11,264	-	11,264
Investment earnings	296	22	318
State aid	11,073	81,220	92,293
Gain (loss) on sale of fixed assets	(2,681)	-	(2,681)
Miscellaneous	121,753	-	121,753
Total general revenues	708,314	81,242	789,556
Change in net position	(340,840)	20,225	(320,615)
Net position, July 1, 2013	4,768,290	197,389	4,965,679
Net position, June 30, 2014	$ 4,427,450	$ 217,614	$ 4,645,064

See accompanying notes to financial statements

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 943,045	$ (52,599)	$ 57,030	$ 947,476
Accounts receivable:				
Taxes	19,937	-	-	19,937
Intergovernmental - indirect federal	-	91,429	-	91,429
Total assets	$ 962,982	$ 38,830	$ 57,030	$ 1,058,842
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ -	$ -	$ -	$ -
Unearned revenue	-	38,830	-	38,830
Total liabilities	-	38,830	-	38,830
Fund balances				
Nonspendable	-	-	-	-
Spendable:				
Restricted	-	-	57,030	57,030
Committed	5,200	-	-	5,200
Assigned	12,801	-	-	12,801
Unassigned	944,981	-	-	944,981
Total fund balances	962,982	-	57,030	1,020,012
Total liabilities and fund balances	$ 962,982	$ 38,830	$ 57,030	$ 1,058,842

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, 2014

Total fund balance per fund financial statements		$ 1,020,012
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is $13,572,797 and the accumulated depreciation is $5,584,852.		7,987,945
Governmental funds record losses on debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are included on the government-wide financial statements as a deferred outflow of resources		62,341
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	(4,414,262)	
Lease obligations	(65,055)	
Interest payable on bonds	(87,318)	
Noncurrent portion of accumulated sick leave	(76,213)	(4,642,848)
Net position for governmental activities		$ 4,427,450

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, 2014

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
REVENUES				
From local sources:				
Taxes				
Property	$ 330,844	$ -	$ 34,164	$ 365,008
Motor vehicle	71,387	-	-	71,387
Utilities	130,214	-	-	130,214
Other	11,264	-	-	11,264
Earnings on investments	296	-	-	296
Other local revenues	101,873	6,332	13,548	121,753
Intergovernmental - state	3,977,944	283,031	439,613	4,700,588
Intergovernmental - federal	-	407,878	55,502	463,380
Total revenues	4,623,822	697,241	542,827	5,863,890
EXPENDITURES				
Current:				
Instruction	3,061,394	541,990	-	3,603,384
Support services:				
Student	171,751	-	-	171,751
Instructional staff	111,884	45,353	-	157,237
District administration	271,602	-	-	271,602
School administration	335,980	-	-	335,980
Business	87,198	24,677	-	111,875
Plant operations and maintenance	485,397	-	42,000	527,397
Student transportation	147,341	12,640	-	159,981
Community service activities	50,094	82,459	-	132,553
Debt service	202,310	-	485,797	688,107
Bond issuance costs	-	-	37,640	37,640
Total expenditures	4,924,951	707,119	565,437	6,197,507
Excess (deficit) of revenues over (under) expenditures	(301,129)	(9,878)	(22,610)	(333,617)
Other financing sources (uses)				
Proceeds from disposal of fixed assets	3,135	-	-	3,135
Proceeds of refunded bonds - net of premium	-	-	2,754,352	2,754,352
Payment of refunded bond escrow agent	-	-	(2,716,712)	(2,716,712)
Operating transfers in	-	9,878	221,354	231,232
Operating transfers out	(9,878)	-	(221,354)	(231,232)
Total other financing sources (uses)	(6,743)	9,878	37,640	40,775
Net changes in fund balances	(307,872)	-	15,030	(292,842)
Fund balances, July 1, 2013	1,270,854	-	42,000	1,312,854
Fund balances, June 30, 2014	$ 962,982	$ -	$ 57,030	$ 1,020,012

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, 2014

Net change in fund balance - Total governmental funds		$ (292,842)
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	$ 164,751	
Depreciation expense	(483,372)	
Net capital outlay		(318,621)
In the statement activities, only the gain (loss) on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the remaining book value of the asset sold.		(5,816)
Bond proceeds are reported as other financing sources in governmental funds and contribute to the change in fund balance. However, in the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of bond principal is an expenditure in the government funds financial statements but is a reduction of the liability in the statement of net position.		
Bond proceeds	(2,750,000)	
Premium on bonds	(4,352)	
Payment to escrow for refunding debt	2,716,712	
Bond repayments	251,391	
KISTA lease payments	15,989	
		229,740
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	45,399	
Amortization of bond discount	(2,153)	
Amortization of gain/loss on debt refunding	(4,453)	
Accrued interest on bonds	7,906	
Net decrease in expenditures		46,699
Change in net position of governmental activities		$ (340,840)

See accompanying notes to financial statements

PROPRIETARY FUND FINANCIAL STATEMENTS

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2014

	School Food Service Fund
ASSETS	
Current assets	
Cash and cash equivalents	$ 144,588
Inventory	13,505
Total current assets	158,093
Noncurrent assets	
Capital assets	219,586
Less: accumulated depreciation	(160,065)
Total noncurrent assets	59,521
Total assets	217,614
LIABILITIES	
Current liabilities	
Accrued salaries and benefits	-
Total current liabilities	-
NET POSITION	
Invested in capital assets, net of related debt	59,521
Unrestricted	158,093
Total net position	$ 217,614

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, 2014

	School Food Service Fund
OPERATING REVENUES	
Lunchroom sales	$ 52,556
Total operating revenues	52,556
OPERATING EXPENSES	
Salaries and wages	241,608
Materials and supplies	194,915
Depreciation	8,857
Contract services	453
Total operating expenses	445,833
Operating income (loss)	(393,277)
NON-OPERATING REVENUES (EXPENSES)	
Federal grants	311,904
Donated commodities	20,356
State grants	4,056
State on-behalf payments	77,164
Interest income	22
Total non-operating revenues (expenses)	413,502
Change in net position	20,225
Net position, July 1, 2013	197,389
Net position, June 30, 2014	$ 217,614

See accompanying notes to financial statements

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014

	School Food Service Fund
Cash flows from operating activities	
Cash received from:	
Lunchroom sales	$ 74,776
Cash paid to/for:	
Employees	(169,444)
Supplies	(169,179)
Contract services	(453)
Net cash provided (used) by operating activities	(264,300)
Cash flows from noncapital financing activities	
Government grants	315,961
Net cash provided (used) by noncapital financing activities	315,961
Cash flows from investing activities	
Receipt of interest income	22
Net cash provided (used) by investing activities	22
Net increase (decrease) in cash and cash equivalents	51,683
Balances, beginning of year	92,905
Balances, end of year	$ 144,588

See accompanying notes to financial statements

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS, continued
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014

	School Food Service Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	$ (393,277)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	8,857
Donated commodities	20,356
State on-behalf payments	77,164
Change in assets and liabilities:	
Accounts receivable	22,220
Inventory	5,380
Compensated absences	(5,000)
Net cash provided (used) by operating activities	$ (264,300)
Schedule of non-cash transactions:	
Donated commodities received from Federal government	$ 20,356
On-behalf payments	77,164

See accompanying notes to financial statements

FIDUCIARY FUNDS FINANCIAL STATEMENTS

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 82,994
Accounts receivable	-
Total assets	82,994
LIABILITIES	
Accounts payable	-
Due to student groups	82,994
Total liabilities	82,994
NET POSITION	$ -

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

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.

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.

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 *Debt Service Fund* accounts 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. 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.

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

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.

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, entitlements, and donations. Property taxes levied to finance fiscal year 2014 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a 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.

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.

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.

Property Taxes

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

The property tax rates for the year ended June 30, 2014 to finance the General Fund operations were $.679 per $100 valuation for real property, $.679 per $100 valuation for business tangible personal property and $.687 per $100 valuation for motor vehicles

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, 2014. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

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

Prepaid Expenditures

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

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.

Nonmonetary assistance is reported in the proprietary funds at the market value of the commodities received/used.

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.

Restricted Assets

Certain assets of the General Fund are classified as restricted assets because their use is restricted by KRS 157.420.3.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars ($5,000) with the exception of real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not 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:

Description	Estimated Lives For Depreciation
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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

Unassigned – All amounts not included in other spendable classifications.

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

Net Position

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

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

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

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

Subsequent Events

Subsequent events have been evaluated through November 14, 2014, which is the date the financial statements were available to be issued.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 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 has made a determination that GASB 67 does not have any impact on the District's financial statements as the District participates in a multiple employer plan (and is not the trustee).

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.

NOTE 2 – CASH AND CASH EQUIVALENTS

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

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

At fiscal year end, the carrying amount of the District's deposits was $1,175,058 and the bank balance was $1,185,281. Of the District's bank balance, $250,000 was covered by Federal Deposit Insurance, with the remaining balance of $935,281 collateralized as discussed above.

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

Governmental funds	$	947,476
Proprietary funds		144,588
Fiduciary funds		82,994
Total	$	1,175,058

NOTE 3 – CAPITAL ASSETS

Capital Asset activity for the fiscal year ended June 30, 2014, was as follows:

Governmental Activities	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Capital assets not depreciated:				
Land	$ 490,545	$ 4,569	$ -	$ 495,114
Construction in progress	-	-	-	-
Total nondepreciable historical cost	490,545	4,569	-	495,114
Capital assets depreciated:				
Land improvements	565,916	-	-	565,916
Buildings and improvements	10,699,219	-	-	10,699,219
Technology equipment	1,063,308	144,191	141,949	1,065,550
General equipment	217,481	15,991	-	233,472
Vehicles	513,526	-	-	513,526
Total depreciable historical cost	13,059,450	160,182	141,949	13,077,683
Less: accumulated depreciation				
Land improvements	378,933	30,991	-	409,924
Building and improvements	3,516,569	286,109	-	3,802,678
Technology equipment	754,411	135,399	136,133	753,677
General equipment	153,715	9,191	-	162,906
Vehicles	433,985	21,682	-	455,667
Total accumulated depreciation	5,237,613	483,372	136,133	5,584,852
Total depreciable historical cost - net	7,821,837	(323,190)	5,816	7,492,831
Governmental activities capital assets - net	$ 8,312,382	$ (318,621)	$ 5,816	$ 7,987,945

NOTE 3 – CAPITAL ASSETS, continued

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

Governmental Activities	
Instruction	$ 332,125
Support services:	
Student	29,565
Instructional staff	726
District administration	14,856
School administration	5,459
Business	226
Plant operation and maintenance	31,146
Student transportation	26,306
Community service	42,963
	$ 483,372

Business-Type Activities	**Balance July 1, 2013**	**Additions**	**Deductions**	**Balance June 30, 2014**
Capital assets depreciated:				
Buildings and improvements	$ 2,010	$ -	$ -	$ 2,010
Technology equipment	19,019	-	2,095	16,924
Food service equipment	200,651	-	-	200,651
Total depreciable historical cost	221,680	-	2,095	219,585
Less: accumulated depreciation				
Buildings and improvements	784	79	-	863
Technology equipment	17,915	484	2,095	16,304
Food service equipment	134,605	8,292	-	142,897
Total accumulated depreciation	153,304	8,855	2,095	160,064
Business-type activities capital assets - net	$ 68,376	$ (8,855)	$ -	$ 59,521

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:

Issue	Proceeds	Maturity Dates	Interest Rates
Issue of 2006	2,235,000	2028	3.80% - 4.25%
Issue of 2014	2,750,000	2029	1.00% - 3.250%

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. This bond was paid in full during the current fiscal year.

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 bond was refunded during the current fiscal year (see below).

On April 1, 2014, the District issued $2,750,000 in Revenue Refunding Bonds with interest rates of 1.00% - 3.250%. The District issued the bonds to refund $2,675,000 of outstanding 2009 BABS Series with interest rates of 2.25% - 6.40%. The net proceeds of $2,716,712 (after payment of $37,640 in underwriting fees, insurance and other issuance costs) were transferred to an escrow agent to provide future debt service payments. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. The refund reduced total debt service payments over the next fifteen years by $286,115, with a net prevent value savings of 8.677%. This results in an economic gain (the difference between the present value of the old and the new debt service payments) of $232,114. The refunding resulted in a difference between the reacquisition price and the net carrying amount of old debt of $66,794. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2029 using the effective interest method.

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS, continued

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, 78.78% for the 2009 Revenue Bond Issue, 11% for the 2014 Revenue Refunding Bonds.

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, 2014, for debt service (principal and interest) are as follows:

	Dawson Springs Independent School District		Kentucky School Facility Construction Commission		
Year	Principal	Interest	Principal	Interest	Total
2015	$ 162,886	$ 37,714	$ 118,520	$ 71,246	$ 390,366
2016	150,673	53,259	120,714	68,493	393,139
2017	150,658	51,657	125,745	63,957	392,017
2018	144,795	50,085	130,975	59,235	385,090
2019	150,428	48,512	135,361	54,357	388,658
2020-2024	720,197	206,242	759,803	188,211	1,874,453
2025-2029	844,903	94,044	535,097	36,072	1,510,116
2030	173,853	2,826	11,147	181	188,007
	$ 2,498,393	$ 544,339	$ 1,937,362	$ 541,752	$ 5,521,846

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS, continued

The changes in outstanding debt are as follows:

	Balance July 1, 2013	New Issues/ Adjustments	Debt Payments/ Adjustments	Balance June 30, 2014
Revenue Bonds				
Series 1994	$ 25,000	$ -	$ 25,000	$ -
Series 2006	1,725,000	-	95,000	1,630,000
Series 2009	2,795,000	-	2,795,000	-
Series 2014	-	2,750,000	-	2,750,000
	4,545,000	2,750,000	2,915,000	4,380,000
Annexation Note Payable	67,146	-	11,391	55,755
Discount	(53,079)		(27,235)	(25,844)
Premium	-	4,351	-	4,351
Total	$ 4,559,067	$ 2,754,351	$ 2,899,156	$ 4,414,262

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:

Class of Property	Cost	Accumulated Depreciation
Vehicle	$ 157,901	$ 93,858
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 3014:

NOTE 5 – CAPITAL LEASE OBLIGATIONS, continued

Year Ending	KISTA 2007 lease	KISTA 2009 lease	Total payments
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	$ 23,009	$ 48,264	$ 71,273
Lease amount representing interest	1,554	4,664	6,218
Present value of net minimum lease payments	$ 21,455	$ 43,600	$ 65,055

During the year ended June 30, 2014, the following changes occurred in the capital lease obligations:

	Balance July 1, 2013	Additions	Payments	Balance June 30, 2014	Due in One Year
KISTA 2007	$ 28,910	$ -	$ 7,456	$ 21,454	$ 7,759
KISTA 2009	52,134	-	8,533	43,601	8,823
	$ 81,044	$ -	$ 15,989	$ 65,055	$ 16,582

NOTE 6 – FUND BALANCE REPORTING

Following is a summary of designations of fund balance at June 30, 2014:

	General Fund	Special Revenue	Other Governmental Funds	Total
Nonspendable	$ -	$ -	$ -	$ -
Restricted:				
SFCC escrow	-	-	57,030	57,030
Committed:				
Site-based carry forward	5,200	-	-	5,200
				-
Assigned	12,801	-	-	12,801
				-
Unassigned	944,981	-	-	944,981
	$ 962,982	$ -	$ 57,030	$ 1,020,012

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 2015 is $-0-. Management has estimated that the long-term obligation will be approximately $76,213.

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.

KSBIT

The District has been notified by the Kentucky School Board Insurance Trust of a $53,944 liability for workers compensation losses incurred by the Trust. The District paid 25% down payment of $13,486 in August 2014. The District chose to pay the remaining liability of $40,458 in six installments beginning August 15, 2015. The entire unpaid balance of the assessment is due and payable in full on August 15, 2020.

NOTE 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. These are cost-sharing, multiple-employer defined benefit plans. 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). CERS administers similar programs for its employees and beneficiaries of county governmental entities, which includes classified employees of the District. Any benefit amendments must be authorized by the State Legislature. The Board of Trustees of the Kentucky Retirement System administers CERS and, under provision of Kentucky Revised Statute Section 61.645, has the authority to establish and amend benefits.

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/. CERS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

NOTE 9 – PENSION PLANS, continued

Contribution rates for both plans are determined by the legislature. KTRS members are required to contribute 11.355% of the employees' salaries to KTRS and the Commonwealth is required to contribute 14,605% of salaries. The federal program for any salaries paid by that program pays the matching contribution. The District is required to contribute 1.50% of all KTRS member salaries to KTRS. CERS members hired before September 1, 2008, are required to contribute 5% of all their salaries to CERS. CERS members hired on or after September 1, 2008, are required to contribute 6% of their salaries to CERS. The District is required to contribute 18.89% of all CERS salaries.

The District's total payroll for the year was $3,635,627. The payroll for employees covered under KTRS was $2,770,518 and for CERS was $796,010.

The contribution requirement for CERS for the year ended June 30, 2014 was $191,459 which consisted of $150,330 from the District and $41,129 from the employees. The Commonwealth contributed $348,212 to KTRS for the benefit of participating employees. The District contributions to KTRS were $59,683, which represents $20,199 for those employees covered by federal programs and $39,483 for all other KTRS employees.

The three year trend information for the District's contribution requirement to KTRS and CERS is as follows:

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
6/30/2014	$ 210,013	100%
6/30/2013	187,266	100%
6/30/2012	180,295	100%

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as of the whole, derived from actuarial valuations (all dollar amounts are $1,000's) performed as of June 30, 2013. (The actuarial reports for the year ended June 30, 2014 are not available.)

NOTE 9 – PENSION PLANS, continued

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL
KTRS	$ 14,962,758	$ 28,817,232	$ 13,854,474
CERS	7,438,785	12,503,081	5,064,295

	Funded Ratio	Covered Payroll	Underfunded Actuarial Liability as Percentage of Covered Payroll
KTRS	51.90%	$ 3,480,066	398.10%
CERS	59.50%	2,697,950	187.71%

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 (3.0%) 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.

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, 2014, employees of the District contributed $37,815 to 401(k) plans and $3,900 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 $33,612 to these plans during the year ended June 30, 2014.

NOTE 11 – ON-BEHALF PAYMENTS

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2014:

Contribution to Kentucky Teachers' Retirement System	$	348,212
Health insurance, life insurance, flexible spending accounts (includes administrative fee)		609,993
Technology		19,606
Debt Service		218,802
	$	1,196,613

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

Governmental activities:		
General Fund	$	910,508
Debt Service Fund		208,941
Business-type activities:		
Food Service Fund		77,164
	$	1,196,613

NOTE 12 – INSURANCE AND RELATED ACTIVITES

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.

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. The following fund had operations that resulted in a current year deficit of revenues over expenditures causing a corresponding reduction of fund balance.

General Fund	$	(307,872)

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:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	KETS matching for technology	$ 9,878
Building	Debit Service	Bond payments	207,574
Capital Outlay	Debt Service	Bond payments	13,780
			$ 231,232

NOTE 17 – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2014.

NOTE 18 – ANNUAL REPORT DIFFERENCE

Capital outlay fund reflects $42,000 in expenses for insurance that was classified as prepaid on the audit report June 30, 2013. The District did not record this expense on the annual report.

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, 2014

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
From local sources:				
Taxes				
Property	$ 311,000	$ 311,000	$ 330,844	$ 19,844
Motor vehicle	50,000	50,000	71,387	21,387
Utilities	90,000	90,000	130,214	40,214
Other	7,700	7,700	11,264	3,564
Earnings on investments	750	200	296	96
Other local revenues	4,500	3,000	101,873	98,873
Intergovernmental - state	3,095,658	3,030,582	3,067,436	36,854
Total revenues	3,559,608	3,492,482	3,713,314	220,832
EXPENDITURES				
Current:				
Instruction	2,318,159	2,335,142	2,290,144	44,998
Support services:				
Student	168,975	169,454	164,736	4,718
Instructional staff	145,581	146,209	104,869	41,340
District administration	668,954	728,710	253,464	475,246
School administration	316,558	300,277	282,365	17,912
Business	199,840	69,525	87,198	(17,673)
Plant operation and maintenance	483,376	519,077	451,847	67,230
Student transportation	168,699	139,375	127,416	11,959
Community services	50,938	50,938	50,094	844
Land/Site acquisition	27,650	27,650	-	27,650
Debt service	1,000	166,610	202,310	(35,700)
Total expenditures	4,549,730	4,652,967	4,014,443	638,524
Excess (deficit) of revenues over (under) expenditures	(990,122)	(1,160,485)	(301,129)	859,356
Other financing sources (uses)				
Proceeds from sale of fixed assets	-	-	3,135	3,135
Operating transfers in	(9,878)	(9,878)	-	9,878
Operating transfers out	-	-	(9,878)	(9,878)
Total other financing sources (uses)	(9,878)	(9,878)	(6,743)	3,135
Net change in fund balance	(1,000,000)	(1,170,363)	(307,872)	862,491
Fund balance, July 1, 2013	1,000,000	1,170,363	1,270,854	100,491
Fund balance, June 30, 2014	$ -	$ -	$ 962,982	$ 962,982

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, 2014

	Budgeted Amount			Variance with Final Budget Favorable (Unfavorable)
REVENUES	Original	Final	Actual	
From local sources:				
Other local revenues	$ -	$ -	$ 6,332	$ 6,332
Intergovernmental - state	250,069	260,152	283,031	22,879
Intergovernmental - federal	414,789	430,058	407,878	(22,180)
Total revenues	664,858	690,210	697,241	7,031
EXPENDITURES				
Current:				
Instruction	545,376	563,687	541,990	21,697
Support services:				
Instructional staff	28,827	26,397	45,353	(18,956)
Business	19,756	19,756	24,677	(4,921)
Student transportation	4,240	13,427	12,640	787
Community services	76,537	76,821	82,459	(5,638)
Total expenditures	674,736	700,088	707,119	(7,031)
Excess (deficit) of revenues over (under) expenditures	(9,878)	(9,878)	(9,878)	-
Other financing sources (uses)				
Operating transfers in	9,878	9,878	9,878	-
Total other financing sources (uses)	9,878	9,878	9,878	-
Net change in fund balance	-	-	-	-
Fund balance, July 1, 2013	-	-	-	-
Fund balance, June 30, 2014	-	$ -	$ -	$ -

SUPPLEMENTARY INFORMATION

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014

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	$ 3,713,314
On-behalf payments	910,508
Total revenues - modified cash basis	$ 4,623,822
Expenditures - budgetary basis	$ 4,014,443
On-behalf payments	910,508
Total expenditures - modified cash basis	$ 4,924,951

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	$ 13,548	$ 43,482	$ -	$ 57,030
Total assets and resources	$ 13,548	$ 43,482	$ -	$ 57,030
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ -	$ -	$ -	$ -
Total liabilities	-	-	-	-
Fund Balances				
Nonspendable	-	-	-	-
Spendable				
Restricted	13,548	43,482	-	57,030
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	13,548	43,482	-	57,030
Total liabilities and fund balances	$ 13,548	$ 43,482	$ -	$ 57,030

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES				
From local sources:				
Taxes				
Property	$ 34,164	$ -	$ -	$ 34,164
Other local	13,548			13,548
Intergovernmental - state	173,410	57,262	208,941	439,613
Intergovernmental - direct federal	-	-	55,502	55,502
Total revenues	221,122	57,262	264,443	542,827
EXPENDITURES				
Plant operation and maintenance	-	42,000	-	42,000
Debt service	-	-	485,797	485,797
Bond issuance costs	-	-	37,640	37,640
Total expenditures	-	42,000	523,437	565,437
Excess (deficit) of revenues over (under) expenditures	221,122	15,262	(258,994)	(22,610)
Other financing sources (uses)				
Proceeds of refunded bonds - net of premium	-	-	2,754,352	2,754,352
Payment of refunded bond escrow agent	-	-	(2,716,712)	(2,716,712)
Operating transfers in	-	-	221,354	221,354
Operating transfers out	(207,574)	(13,780)	-	(221,354)
Total other financing sources (uses)	(207,574)	(13,780.00)	258,994	37,640
Net change in fund balances	13,548	1,482	-	15,030
Fund balances, July 1, 2013	-	42,000	-	42,000
Fund balances, June 30, 2014	$ 13,548	$ 43,482	$ -	$ 57,030

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS
ALL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balance July 1, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2014
Dawson Springs Junior and Senior High School	$ 63,511	$ 197,998	$ 187,971	$ 73,538	$ -	$ -	$ 73,538
Dawson Springs Elementary	8,516	25,266	24,326	9,456	-	-	9,456
Totals	$ 72,027	$ 223,264	$ 212,297	$ 82,994	$ -	$ -	$ 82,994

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, 2014

	Cash Balance July 1, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2014
Academic	$ -	$ 897	$ 857	$ 40	$ -	$ -	$ 40
Annual Staff	16,050	7,730	15,778	8,002	-	-	8,002
Art Club	1,256	-	37	1,219	-	-	1,219
Athletic	18,780	54,455	54,799	18,436	-	-	18,436
Back to school	2,167	1,871	2,383	1,655	-	-	1,655
Baseball boosters	8	1,727	1,536	199	-	-	199
BETA Club	59	2,800	2,670	189	-	-	189
Boys basketball	20	1,905	1,570	355	-	-	355
Boys soccer	1,168	5,626	4,342	2,452	-	-	2,452
Cheerleading - HS	749	4,390	4,460	679	-	-	679
Project Prom	1,171	6,678	5,196	2,653	-	-	2,653
Class of 2012	-	-	-	-	-	-	-
Class of 2013	797	-	797	-	-	-	-
Class of 2014	944	26,406	26,234	1,116	-	-	1,116
Class of 2015	227	3,360	3,542.00	45	-	-	45
Class of 2016	479	154	-	633	-	-	633
Class of 2017	750	95	-	845	-	-	845
Class of 2018	107	304	-	411	-	-	411
Class of 2019	-	588	321	267	-	-	267
Cokes - HS	722	411	125	1,008	-	-	1,008
Crime stoppers	-	-	-	-	-	-	-
Cross Country	1,560	7,147	6,645	2,062	-	-	2,062
Dance Team	-	-	-	-	-	-	-
DECA	243	-	-	243	-	-	243
Drama Club	-	22	-	22	-	-	22
Earth Day	165	1,055	1,118	102	-	-	102
Education Fund	2,263	4,483	4,542	2,204	-	-	2,204
FBLA	1,899	626	798	1,727	-	-	1,727
FCA	23	1,071	1,079	15	-	-	15
Girls basketball	181	5,155	1,666	3,670	-	-	3,670

(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, 2014

	Cash Balance July 1, 2012	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2014
Girls soccer	1,013	5,430	4,000	2,443	-	-	2,443
Golf	835	6,458	5,967	1,326	-	-	1,326
Library (Media Center)	718	115	-	833	-	-	833
Jr. Beta Club	59	480	480	59	-	-	59
Jr. Hi Academic	222	1,306	1,162	366	-	-	366
MS boys basketball	1,446	857	1,705	598	-	-	598
MS cheerleaders	329	5,518	5,740	107	-	-	107
MS girls basketball	1,935	568	-	2,503	-	-	2,503
Music	1,960	26,173	19,046	9,087	-	-	9,087
National Honor Society	-	-	-	-	-	-	-
Office Fund	2,082	2,325	2,755	1,652	-	-	1,652
Paw Mart	-	-	-	-	-	-	-
Softball	712	7,862	6,287	2,287	-	-	2,287
Spanish Club	21	-	-	21	-	-	21
Student Awards	38	-	16.00	22	-	-	22
Track	353	3,625	3,544	434	-	-	434
Field trips	-	1,636	1,555	81	-	-	81
Math Club	-	436	249	187	-	-	187
Bass Fishing	-	949	855	94	-	-	94
Math a Thon	-	315	315	-	-	-	-
Mascot Fund	-	1,110	-	1,110	-	-	1,110
Student Ambassadors	-	79	-	79	-	-	79
Relay for Life	-	250	250	-	-	-	-
	63,511	204,448	194,421	73,538	-	-	73,538
Less: Interfund Transfers	-	(6,450)	(6,450)	-	-	-	-
Totals	$ 63,511	$ 197,998	$ 187,971	$ 73,538	$ -	$ -	$ 73,538

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

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	$ 34,870	
		310000213	165,156	$ 200,026
Career and Technical Education - Basic Grants to States	84.048	462133213	111	
		371000213	5,511	5,622
Special Education Preschool Grants	84.173**	380000212	4,637	
		380000213	12,139	16,776
Improving Teacher Quality State Grants	84.367	323000213		16,678
Special Education - Grants to States	84.027**	381000212	16,681	
		381000213	132,211	148,892
Rural School	84.358	314000213		10,472
Race to the Top	84.413	396000211		9,412
Total U. S. Department of Education				407,878
U.S. Department of Agriculture				
Passed through State Department of Education:				
School Breakfast Program***	* 10.553	7760005-13	18,300	
		7760005-14	84,086	102,386
National School Lunch Program***	* 10.555	7750002-13	36,647	
		7750002-14	172,871	
Noncash Assistance - Commodities (Note 4)		Fund 51	20,356	229,874
Total U.S. Department of Agriculture				332,260
Total Expenditures of Federal Awards				$ 740,138

*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, 2014

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, 2014. 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.

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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, 2014, 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 14, 2014.

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.

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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 nay 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 2014-01).

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 14, 2014.

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.

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Hopkinsville, Kentucky

November 14, 2014

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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, 2014. 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.

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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, 2014.

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.

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

Certified Public Accountants
Hopkinsville, Kentucky

November 14, 2014

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified 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: 2014-01.

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 unmodified 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 programs tested as a major programs were:

Program Title	CFDA Number
School Breakfast Program	10.553
National School Lunch Program	10.555

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

2014-01 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.

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, 2014

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

MANAGEMENT COMMENTS FOR AUDIT

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Certified Public Accountants

November 14, 2014

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, 2014, 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.

During our audit, we did not become aware of any matters in fiscal year 2014 that are considered reportable management letter comments regarding the strengthening of internal control and operating efficiency. The memorandum that accompanies this letter reflects that result. This letter does not affect our report dated November 14, 2014 on the financial statements of the Dawson Springs Independent School District.

We performed a follow-up on the prior year findings with the status of these findings documented on page 67 of this report.

Respectfully,

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

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DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2014

There were no current year management letter comments.

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DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2014

DAWSON SPRINGS ELEMENTARY SCHOOL

I. **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

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 not repeated for fiscal year June 30, 2014.

II. **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 not repeated for fiscal year June 30, 2014.

DAWSON SPRINGS JUNIOR AND SENIOR HIGH SCHOOL

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

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

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 purchase orders dated after invoice and inventory control worksheets.

DAWSON SPRINGS INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2014

DAWSON SPRINGS JUNIOR AND SENIOR HIGH SCHOOL, continued

II. **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 not repeated for fiscal year June 30, 2014.

CENTRAL OFFICE

I. **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 not repeated for fiscal year June 30, 2014.